103

S. HRG. 103-66

U.S. TRADE POLICY AND NAFTA

Y 4. F 49: S. HRG. 103-66

U.S. Trade Policy and NAFTA, S.Hrg....

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 9, 1993

DEPOSITORY

AUG 4 1993

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

67-014—CC WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-040941-1

103

S. HRG. 103-66

U.S. TRADE POLICY AND NAFTA

Y 4. F 49: S. HRG. 103-66

U.S. Trade Policy and NAFTA, S.Hrg....

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 9, 1993

AUG 4 1993

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

67-014—CC WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-040941-1

COMMITTEE ON FINANCE

DANIEL PATRICK MOYNIHAN, New York, *Chairman*

MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DAVID PRYOR, Arkansas
DONALD W. RIEGLE, JR., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
TOM DASCHLE, South Dakota
JOHN B. BREAUX, Louisiana
KENT CONRAD, North Dakota

BOB PACKWOOD, Oregon
BOB DOLE, Kansas
WILLIAM V. ROTH, JR., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
DAVE DURENBERGER, Minnesota
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
MALCOLM WALLOP, Wyoming

LAWRENCE O'DONNELL, JR., *Staff Director*
EDMUND J. MIHALSKI, *Minority Chief of Staff*

CONTENTS

OPENING STATEMENTS

	Page
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York, chairman, Committee on Finance	1
Roth, Hon. William V., Jr., a U.S. Senator from Delaware	2
Baucus, Hon. Max, a U.S. Senator from Montana	3
Packwood, Hon. Bob, a U.S. Senator from Oregon	4
Bradley, Hon. Bill, a U.S. Senator from New Jersey	5
Danforth, Hon. John C., a U.S. Senator from Missouri	5
Chafee, Hon. John H., a U.S. Senator from Rhode Island	6
Daschle, Hon. Thomas A., a U.S. Senator from South Dakota	6
Rockefeller, Hon. John D., IV, a U.S. Senator from West Virginia	7

COMMITTEE PRESS RELEASE

Trade Representative Kantor to Testify on U.S. Trade Policy, North American Free Trade Agreement	1

ADMINISTRATION WITNESS

Kantor, Hon. Mickey, U.S. Trade Representative, Washington, DC	8

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Baucus, Hon. Max:	
Opening statement	3
Bradley, Hon. Bill:	
Opening statement	5
Chafee, Hon. John H.:	
Opening statement	6
Danforth, Hon. John C.:	
Opening statement	5
Daschle, Hon. Thomas A.:	
Opening statement	6
Hatch, Hon. Orrin G.:	
Prepared statement	47
Kantor, Hon. Mickey:	
Testimony	8
Prepared statement	48
Responses to questions from Senator Grassley	55
Moynihan, Hon. Daniel Patrick:	
Opening statement	1
Packwood, Hon. Bob:	
Opening statement	4
Pryor, Hon. David:	
Letter to Mickey Kantor, dated March 9, 1993	56
Rockefeller, Hon. John D., IV:	
Opening statement	7
Roth, Hon. William V., Jr.:	
Opening statement	2
Prepared statement	59
Wallop, Hon. Malcolm:	
Prepared statement	59

U.S. TRADE POLICY AND NAFTA

TUESDAY, MARCH 9, 1993

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:12 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Pryor, Riegle, Rockefeller, Daschle, Conrad, Packwood, Roth, Danforth, Chafee, Grassley, and Wallop.

[The press release announcing the hearing follows:]

[Press Release No. H–4, March 2, 1993]

TRADE REPRESENTATIVE KANTOR TO TESTIFY ON U.S. TRADE POLICY, NORTH AMERICAN FREE TRADE AGREEMENT

Senator Daniel Patrick Moynihan (D.-N.Y.), Chairman of the Senate Committee on Finance, announced today that the Committee will hold a hearing on the administration's trade policy goals and priorities. U.S. Trade Representative Mickey Kantor will be the only witness at the hearing.

The hearing will begin at *10:00 a.m. on Tuesday, March 9* in Room SD–215, Dirksen Senate Office Building.

"The new administration has inherited a number of challenging trade issues, many of them demanding immediate attention," Senator Moynihan said.

"As the administration prepares for upcoming meetings with Mexico and Canada regarding supplemental agreements to the NAFTA, the Committee will want to explore U.S. objectives in those negotiations. At the same time, we want to examine more generally the new administration's trade philosophy. The course that we chart now will have an important impact on the revitalization of our economy and the competitiveness of our industries in the global marketplace."

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. A very good morning to our distinguished witness and to our guests.

And I will say that Senator Packwood has been necessarily delayed and won't be here for a bit and asked that we go ahead in any event.

Our purpose this morning is to hear from Ambassador Mickey Kantor who is the U.S. Trade Representative on this first occasion that he can come before us with the basics of the administration's trade proposal at hand.

We have been meeting in the committee conference room, as is the very agreeable practice developed over many decades, just to have some preliminary conversations. Nothing is closed. Anything

that we discussed in the conference room, we can discuss here in the open as well.

This particular meeting was put off just a bit at the Ambassador's request in order that President Clinton could give the address which he gave at the American University, a major statement of policy, very carefully following on the example of President Kennedy whose last major address was also given at the American University, I believe, just 30 years ago.

And in that address, the President put forward a very positive, a very forward-looking statement, committing his administration to continuing what has been a remarkable record of opening world trade barriers from the 1930's when it began under Cordell Hull and as it continues to this day.

In the meantime, Ambassador Kantor has been receiving his due share of attention and more. He has been accused of all the deviants and the likes of such that are available to a Trade Representative, but the one we like most is the term "resolute."

He has shown himself not just resolute in turning American interests, but in pursuing the largest American interest which is widening the world trade system.

There is in this morning's press one statement, a story out of the administration which suggests that it may be the two committees, our committee here in Finance and on the House side, Ways and Means, just won't find the time to get through all of the matters that are coming at us in the next months and during the course of this year.

And, indeed, a story by Mr. Keith Bradshes in the Times, he states that with respect to the trade agreement, "The agreement's future in Congress is also becoming increasingly uncertain."

This reflects concerns within the administration, more about schedule than about anything else, but substantive matters as well. We're here to discuss both.

And with that, let me turn to Senator Roth and ask if he would like to make a statement. Then, we will just go around our table.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE

Senator ROTH. Thank you, Mr. Chairman.

It's a pleasure to welcome the Ambassador. And I must say, Mr. Chairman, this is a very timely hearing, coming shortly after the President's first major speech on international policy and trade.

I think the President spoke eloquently about the international economic challenges, as well as opportunities, we face as a nation in this dynamic, global economy in which we are, like it or not, competing.

He talked about the benefits of open and competitive commerce, and of the compelling need to prepare our workforce to embrace the global economy because it "will enrich us as a nation." As the President stated, "we must compete, not retreat."

As our chief trade negotiator and trade policy advocate, Ambassador Kantor will, of course, be responsible for filling in the specific details of the President's broad outline of what must be done in the international trade arena to meet the challenges of a global economy. I look forward to your comments and your testimony.

I'd just like to comment very briefly on the completion of the Uruguay Round, Mr. Chairman. It seems to me the most urgent question now surrounding its successful conclusion is whether the United States will renew fast-track authority.

I think it is incumbent on us to finish the trade talks which already have been 7 years in the making, for they hold enormous promise for opening markets worldwide and boosting U.S. exports and jobs. As the world's largest trader, the United States has the most to gain from a growing world economy built on the strong and comprehensive multilateral rules of the game that will be achieved through the Uruguay Round.

I have to say, however, that 7 years of negotiations appear to me to be just about long enough. And this year should be the make-or-break year for the trade talks. We should have, in fact, already put them behind us and moved on to a new trade round on the new issues that come to the forefront, such as the environment and competition policy.

And if our trading partners aren't willing to make the tough decisions that are needed to conclude the Uruguay Round, then, maybe it is time to move on. To do our part, support quickly renewing fast-track authority. I personally think 6 to 9 months would be enough.

In any event, Mr. Chairman, I would ask that my full statement be included in the record.

And I welcome the Ambassador and look forward to his comments.

The CHAIRMAN. Thank you, Senator Roth.

All statements will, of course, be included.

[The prepared statement of Senator Roth appears in the appendix.]

The CHAIRMAN. Senator Baucus.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador, we all give you a very warm, hearty welcome from this committee. We have a major, very ambitious agenda ahead of us, as you well know.

In fact, I'm just astounded at how much you have to do with such a small agency. But then again, it's probably advantageous that your agency is not as large and as cumbersome as some others. We very much welcome you, and look forward to working with you.

On the top of your list is obviously NAFTA which creates an enormous opportunity for Americans, as well as for the residents of Mexico and Canada. North America is the largest market in the world, with the largest total gross domestic product. NAFTA is a major opportunity.

It also presents some very hard questions. How are we going to protect environmental standards amongst the three countries?

I know you are going to address that very seriously, as well as the labor relations questions that have to be addressed, and the labor standards questions that have to be addressed.

And I very strongly urge you to delve into those to the fullest and reach a conclusion so that you can send them up to the Congress along with the agreement itself.

Those questions have to be dealt with. And they should be dealt with before the NAFTA text is sent to the Congress for a vote.

Then obviously, there's the Uruguay Round. It is 2 years overdue. It has been 7 years now since the talks started. It is like the dinner guest at the dinner party who hangs around long after the other guests have left. We've got to deal with it.

And I think that the solution is two-tier, short-term fast-track extension for the round, longer term for other potential free trade agreements.

I also very strongly urge you to include, when you submit fast track for an extension, Super 301 and the Trade Agreements Compliance Act because after all, we in the Congress have given an extraordinary grant of power to the administration in extending fast track in the first place.

I think that fast track should be extended to achieve free trade agreements that are market opening in their purpose. The conclusion of Super 301 and the Trade Agreements Compliance Act, which are also market opening not only in their intent, but in their effect, is also a necessary part of the request.

And I urge the administration to make that request. I think that if it does so, we can keep a fairly tight package, without a lot of ornaments on the Christmas tree, if you will. So we can go ahead. And it will be a good signal to our trading partners.

The CHAIRMAN. Thank you, Senator Baucus. I think we would all like to hear from the Ambassador about your suggestion of the two-tier approach when the time comes.

Senator PACKWOOD. Good morning, sir.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Very quickly, Mr. Ambassador, one, I agree with what Senator Baucus has indicated on fast track.

I am not hung up as to whether it is 6 months for the Uruguay Round and 2 or 4 years for everything else, but you need this authority that you asked this Congress for. I hope we will give it to you.

Mr. KANTOR. Thank you, Senator Packwood.

Senator PACKWOOD. Two, on NAFTA, if I have any misgiving, maybe it is about these trinational commissions. I do not quite understand what their power is going to be in terms of whether or not they have legal standing to sue to enforce our environmental laws if Canada or Mexico thinks we are not living up to the Endangered Species Act or the wetlands legislation.

But before we tread too far down that road I urge caution. I know we want to enforce Mexico's environmental laws but I am not sure I want somebody else enforcing our environmental laws.

Thank you, Mr. Chairman.

The CHAIRMAN. Clarity and succinctness.

Senator Bradley.

OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mr. Ambassador, as I have mentioned to you before, I think that successfully shepherding through the NAFTA treaty will be the most important legacy that you will leave in your term.

You could make some mistakes and have some real blunders in GATT and so forth, but in terms of positive achievement, I think that the NAFTA will be the most important thing that you can do.

I hope that you will quickly conclude the so-called side negotiations. I would advise you, whatever you come up with, if it's a commission, don't call it the "trilateral commission." [Laughter.]

Mr. KANTOR. We have to come to that conclusion, Senator.

Senator BRADLEY. But conclude it quickly and get the treaty up to us with implementing legislation as soon as possible, the sooner the better—the sooner the better.

And I think we are all willing to work with you, but we hope that the parallel negotiations are not going to drag on, that whatever they are going to address, they address. Conclude and get the treaty up here with implementing legislation by early summer at the latest.

The CHAIRMAN. Thank you, Senator Bradley.

A certain agreement seems to be emerging so far.

Senator Danforth.

OPENING STATEMENT OF HON. JOHN C. DANFORTH, A U.S. SENATOR FROM MISSOURI

Senator DANFORTH. Mr. Ambassador, let me express my strong support for the long overdue initiative that President Clinton is taking with respect to our beleaguered aerospace industry.

He has made statements which this Senator has welcomed on a couple of occasions, indicating his great concern.

The problems of the aerospace industry are multifaceted, but one of the problems is Airbus. Airbus has been in existence for over two decades.

An independent study that was commissioned by a past administration reported that it had been the beneficiary of $26 billion in subsidies.

It now has 44 percent of the U.S. market and 28 percent of the international market in commercial aircraft. And it has never made any money at all.

My hope is that the rest of the administration is going to follow the leadership that President Clinton has indicated with respect to Airbus.

I would hope that the Commerce Department would initiate a countervailing duty case. Senator Baucus and I and others have introduced legislation to require that. Of course, it could be done by the Commerce Department on its own initiative.

And my hope is that the USTR would do more than simply consult on that terribly misguided agreement of last year, entered into by the previous administration, but never ratified by Congress.

And, in fact, although it was a sense of the Senate vote, there was an overwhelming vote in the Senate that we should not condone any subsidy. And yet, that is what the Airbus agreement did.

I will be interested in hearing what you have to say about Airbus, not only from the standpoint of the interests of our own aerospace industry, but from the standpoint of the credibility of trade agreements themselves.

Why have a Subsidy Code, if the rights that we acquire under that code are not going to be enforced?

The CHAIRMAN. Thank you, Senator Danforth.

Senator Pryor.

Senator PRYOR. I am going to yield my time to the Ambassador, Mr. Chairman. Thank you.

The CHAIRMAN. Senator Chafee.

OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Ambassador, I have a sense of urgency about these agreements, the GATT, fast track, and NAFTA.

And as I have mentioned to you before, I am not quite clear what the side agreements will do, how they can be worked out, whether they are sort of a method of putting the spotlight on deficiencies that might exist in the other nation or whether there is some enforcement power.

I just do not understand them, and hope that in the course of this morning's session, you might explain to us—without getting into specifics—what you are seeking.

Again, I would urge speed. I know that you have not been in office long, but nonetheless, there are factors that should be considered, including the schedule of this Senate.

So I want to reinforce your sense of urgency.

Thank you.

The CHAIRMAN. Thank you, Senator Chafee.

Senator Daschle.

OPENING STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

I would like to welcome the Ambassador as well and, like others, compliment him on the speed in which he has come to terms with many of these issues and the grasp that he apparently has of them.

I know he knows that many of us are concerned with agriculture and that we view the failure to reach agreement on agriculture with the Canadians as one of NAFTA's most significant shortcomings.

We are concerned that it locks in the Canadian's ability to subsidize its products. We are concerned that without transparency, we have no way of determining Canada's growing tendency to subsidize international trade in agriculture, especially in Mexico today.

We are concerned with the fact that Canada has locked in nearly 75 percent of the wheat market in Mexico today.

And a lack of success in dealing with this issue under the United States-Canada Free Trade Agreement, in our view, compounds the problem with NAFTA. It raises very serious questions for many of us.

Can we force under the current agreement some form of transparency? Can we confront these practices as countervailable?

Can we regain some kind of an end-use certification to ensure that Canada does not benefit from our own export promotion?

These are very important issues to agriculture today. And there is a high degree of consensus about the need to address them prior to the time we are called upon to vote on the NAFTA agreement.

Given our limited budgetary resources in agriculture under the President's plan and the additional cuts that may come about in the budget committees, we are even more concerned about our inability through fiscal means to deal with these issues if they are not resolved in the context of the NAFTA.

So we sincerely hope that, the near future, the administration's position on these matters will be clarified and that you understand the real urgency in resolving them at some point in the near future.

Mr. KANTOR. Thank you, Senator.

The CHAIRMAN. Thank you, Senator Daschle.

And Senator Rockefeller.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman.

It is becoming a tradition, Mr. Ambassador, for the Finance Committee to begin each Presidential term with a hearing on trade policy. And here we are having that hearing.

What is not yet a tradition unfortunately is that we begin each term with a trade policy. For the past 12 years, our policy has been essentially that we are for free trade, that we are for improved market access, and a Uruguay Round, while our strategy as opposed to policy has been in any given crisis to do the minimum necessary to avoid some kind of Congressional action.

Neither that policy nor that strategy has accomplished, in my judgment, much. As a matter of fact, trade negotiations are well into their seventh year. Our trade deficits have begun to rise again. Numerous bilateral problems, particularly with Europe, seem to remain permanently on the table.

These remarks, I might say, Mr. Ambassador, comport very much with the spirit of your own remarks that you will shortly be making.

Once again, we have a chance to start off properly with a new administration and a superb USTR leader. And I hope that you, Mr. Ambassador, will, in fact, seize that opportunity.

And let me suggest two key points to consider in developing the policy. First, we need, in my judgment, to integrate trade policy into domestic economic policy.

To the extent it has been related to anything in the past, it has been the very poor relative to foreign policy, an observation that I might say that Senator Danforth has made innumerable times.

But trade policy is not about foreign policy. It is about how we get our economy in shape to compete in the 21st century.

When a number of us developed the Democratic economic leadership strategy a year ago, including the now Vice President, its five key components were research and development, technology com-

mercialization—you would expect that—manufacturing extension, training and education, and trade policy.

We did that to make clear that American industry no longer functions in a cozy, national environment. Competition now means contending with foreign, non-American producers, many of whom are equipped with advantages that we have avoided, like hefty government subsidies.

That means to me that the Clinton administration and its successors will have the task of identifying those parts of our economy that are critical to our international competitiveness and making sure that they are, in fact, in shape to compete.

Trade policy is inevitably one way that we do that—not the only way—by helping our industries obtain the market access that their competitiveness entitles them to and by going after foreign companies that use tactics illegal under our law or not sanctioned by GATT rules or both.

But we should make those decisions within an analytical framework rather than as an ad-hoc response to an individual or particular crisis in an individual or bilateral relationship.

That is a tall order, Ambassador Kantor, but I have absolute confidence that you can fulfill it.

I thank the chairman for his patience.

The CHAIRMAN. We thank Senator Rockefeller.

And on that note of confidence, we welcome you, Ambassador Kantor.

STATEMENT OF HON. MICKEY KANTOR, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. KANTOR. Thank you very much, Mr. Chairman. I will submit my full statement for the record.

The CHAIRMAN. It will be placed in the record.

[The prepared statement of Mr. Kantor appears in the appendix.]

Mr. KANTOR. And I will go through it, not with repetivity, but certainly in a way that gives you the outline without taking too much of the committee's time so we can have more time for questions and to respond to the many and varied and frankly very serious questions that were raised here today.

Let me just note before I begin, Senator Rockefeller, I couldn't agree with you more and the President could not agree with you more.

The reason I asked the chairman for the courtesy of delay for this hearing for 1 week was to allow the President to speak at American University and to lay in broad, but, I think, very vivid terms that he agreed with much, if not with all of what you just said, especially connecting trade policy which is after all a process to an integrated economic policy, and that, number two, our national security is strictly tied to our economic security here at home.

As you know, that was in the American University speech. It is in my statement. I will not take the committee's time to reiterate that, but I think it is something on which we agree across partisan lines, frankly, that is long overdue.

And everything I do in serving this President and working with this Congress and representing the American people will be in that light.

I welcome the opportunity to appear before the committee today to discuss the approach and direction of trade policy in this administration.

This is my first public appearance before a Congressional committee since I assumed my responsibilities, but, of course, we have had two private sessions. And I have had numerous personal contacts with each of you, which I have found extremely valuable and very helpful to me.

I am delighted that I can appear first before this committee which recommended me for confirmation to the U.S. Senate for which I am very grateful.

In the President's February 26 speech at American University, he set forth his vision of America's role in the global economy, confronting the third, as he called it, defining moment of the 20th century.

The United States will be fully engaged internationally, not turning inward. In fact, it was just said earlier, we will compete not retreat.

We see our prosperity bound up with the prosperity of our trading partners. Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services, as Senator Rockefeller has just referred.

As the President said and I repeat, we will compete, not retreat.

Let me start with the principles that will guide the administration's Trade Policy as articulated in President Clinton's speech at American University.

In this administration, trade policy is part of an integrated economic policy. And the fundamental goal is economic growth and the creation of high-wage jobs for American workers.

Nothing is more important to our economic prosperity, our competitive success, and our trade policy than the adoption of the President's economic package.

President Clinton was elected to get the economy back on track. The lack of investment and the deficits have crippled our economic performance. And certainly, all of you know that better than I. If unaddressed, they could consign this country and its children to a diminished economic future.

A real attack on the budget deficits will reduce long-term interest rates, which we are seeing today, and lead to increased investment and job growth. Moreover, the link between the President's program and our ability to promote global growth is inescapable.

Growth will resume through concerted action by the leading economic powers, our attack on budget deficits, frankly, Germany's willingness to lower interest rates, and Japan's readiness to stimulate its own domestic economy.

President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

Past administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns.

And they may have been legitimate at points. The days when we could afford to do so are long past. In the post-cold-war world, our national security depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic system.

Our foreign and economic policy in the post-war era deserves credit for its historic accomplishments. By the early 1970's, however, our trading partners had begun to come of age. And external shocks, such as the oil embargo of 1973, jolted this economy, the trust in steady, economic growth, and a secure domestic market.

American businesses and workers had difficulty adjusting to the new dynamics of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

We will compete. And we have proven that we can. Because of failed government policies and the difficulties in adjusting to a new global economy, the United States has had serious competitor problems in many areas of the economy.

I have no doubt of our ability, of our corporations, our farmers, and our workers to compete. In many sectors, computers, aircraft, machinery, agriculture, motion pictures, financial services, American companies and American workers set the standard of excellence in the world.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1992, U.S. merchandise exports increased from $222 billion to $445 billion, in current dollars, a doubling, a virtual doubling.

We will seek to expand trade by opening foreign markets. And we will enforce our laws here at home. One of my principal responsibilities as USTR is to open foreign markets and break down barriers to manufactured goods, agricultural products, and services.

We are not a perfectly open market, Mr. Chairman, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. And let me note, we are the largest economy in the world with an open market. And that is not even a close question.

There are some smaller economies with markets that are somewhat more open, but this is the largest open market in the world.

Consequently, we need to use every tool at our disposal, multilaterally where possible and bilaterally where necessary to make sure that other markets are comparably open to our own.

In today's global economy, allowing other nations to promote and protect their industries, building profits from secured home markets while targeting our open market, is a formula for competitive suicide.

President Clinton has consistently affirmed his support for NAFTA, the North American Free Trade Agreement, provided it is accompanied by effective U.S. domestic economic policies and sup-

plemented by additional agreements and domestic actions to address concerns regarding labor, the environment, and safeguards against import surges. I know it is a subject Senator Chafee wants to talk about today.

Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994.

On March 17, we will begin negotiations of supplemental agreements on labor standards and safety, the environment, and import surges, which the President called for during his campaign, in fact, on October 4, 1992 in North Carolina. We reiterated it on December 17, 1992 upon the signing of the NAFTA.

We will pursue these agreements vigorously. Let me assure you that we will not sacrifice substance for speed nor will we delay our efforts in the name of an artificial timetable.

These will be done and done in proper fashion and done in time for the implementation date of January 1, 1994, Senator Bradley.

We want the agreements to have mechanisms and provisions to help raise standards where they are deficient, strengthen national enforcement of national laws, improve the United States-Mexico border environment, and ensure as far as possible that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we are going to achieve these goals. My Mexican counterpart, Minister Serra Puche, has told me that he would like to view these talks not as negotiation, but collaboration.

Mexico has excellent labor and environmental standards on its books. And President Salinas has repeatedly recognized the need to strengthen enforcement.

And these negotiations will be breaking new ground for the United States and for our continent. We want to promote the strongest possible improvement in all areas. At the same time, we have to bear in mind that the agreements will apply to us, as well as to our neighbors.

My staff and I will be looking to you and to our experts in the labor and environmental communities to find ways to address these problems as the negotiations progress.

With respect to the Uruguay Round, it is clear that President Clinton is committed to the successful completion of this round of multilateral trade negotiations, which has been ongoing since 1986.

Sir Leon Brittain, the EC Trade Commissioner, was here on February 11. And I announced the President's decision to seek the renewal of fast-track procedures to complete the round.

Ambassador Yerxa was just in Europe. And I will go on the 28th of this month to meet with Sir Leon Brittain and his colleagues, by the way, Mr. Chairman, to continue these discussions.

We are in the midst of that process, as I have indicated. And no final decision on time or duration of fast track has been made, but obviously, I am willing to discuss that here today with the committee.

I think that we can complete the round in a way that will benefit the United States and the world economy. But based on our discus-

sions to date, I do not believe that we were as close to completion as someone reported in early January.

I told Sir Leon that our goal was a good agreement, not just a quick one. The question of whether we can reach an agreement depends very much on the market access commitments for goods and services, which are still being negotiated.

If we reach ambitious agreements on market access, cutting tariffs, breaking down non-tariff barriers, the round will hold out potential benefits of a magnitude that will inspire enthusiasm throughout the entire American community.

The round depends in the first instance on the United States and European Community leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services.

As far as the European Community is concerned in a bilateral relationship, Mr. Chairman, we have our share of current difficult issues.

Despite this, our trading relationship with the European Community is one of the most important in the world. And it is critical to the integrity and vitality of a multilateral trading system.

We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market, comparable in size to our own, but we insist that European integration, legislation, and policies treat U.S. firms fairly.

As far as the relationship with our Japanese trading partners are concerned, the United States-Japan trade relationship needs immediate and serious attention. Numerous barriers remain in Japan which prevent or frankly dramatically reduce the sale of U.S. products and services which are highly sought after in other countries around the world. And none is more apparent than in the semiconductor area.

We must insist that Japan fully implement the range of agreements already negotiated, and implement them in such a way that they provide important, concrete benefits to our country and other non-Japanese suppliers.

We will be reviewing the Semiconductor Agreement to monitor the progress being made towards the expectation of a 20-percent market share in Japan for foreign semiconductors.

Obviously, we will also be looking at autos and auto parts, government procurement, services, and other areas.

Let me close on a personal note, Mr. Chairman, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have or the work that we will do together.

I traveled around the country during the last campaign. I have seen the pain inflicted on people and communities from jobs lost as a result of the changing global economy.

In fact, Senator Riegle, I have just returned from Michigan, as you know.

I have spoken with many of you. And through you, I have heard the concerns of those you represent. Together we need to find the mix of policies to rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Ambassador.

And can I take the occasion for the committee to welcome back Ambassador Yerxa from Geneva?

It is nice to have you with us. You have always been on our side. [Laughter.]

Mr. KANTOR. He is even more on our side now, Mr. Chairman.

Let me also, if I might, introduce my new General Counsel, Ira Shapiro, who some of you know very well.

The CHAIRMAN. Mr. Shapiro, we welcome you.

Mr. KANTOR. And Nancy Leamond who heads Congressional Relations who also all of you, I think, know very well.

The CHAIRMAN. Ms. Leamond, we will be seeing much of you.

Mr. KANTOR. And part of the best, I think, professional staff in Washington, if not the best, I believe it to be the best, Assistant USTR, Chip Roh. Chip is right here.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you again, sir.

Ambassador, you spoke first of all and properly about the North American Free Trade Agreement. And you said the agreement has been concluded. It was signed simultaneously in Ottawa and Mexico City and here in Washington in December.

You said that our goal—and during the campaign, then Governor Clinton indicated he would want to have three side agreements, not amending the agreement itself, but having the force of intergovernmental agreements. And they were to have to do with labor standards and environmental standards and with the question of import surges.

And you say in your written statement and you did take the trouble to read this out, "Our goal is rather to negotiate the necessary supplemental agreements and go to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994."

And yet, a little later, you spoke of not wanting to commit yourself to an artificial timetable. Those were your words.

Now, there is a timetable here. You said January 1, 1994. And I just have to ask you, sir, and I think I do so on behalf of the committee, as much as we want this agreement, we also want the side agreements.

Can we understand that you are prepared to walk away from the table if you cannot get the satisfactory set of side agreements?

Mr. KANTOR. Yes, Mr. Chairman. Let me make that clear. One, the President is committed to the goal of implementation 1–1–94. He is committed not to reopen the NAFTA itself, but he will not send the NAFTA to this Congress without these supplemental agreements.

And I, as a member of the cabinet and as USTR, am prepared to, as you say, walk away from the table if we can't get satisfactory supplemental agreements.

The CHAIRMAN. Fine. I think that is a great opening statement and a necessary one, but it needs to be understood on all sides, not least ours. And thank you very much for that.

Senator Packwood.

Senator PACKWOOD. One of the things you want in the side agreements is the North American Commission on the Environment, as I understand it.

What is your goal? What do you want this commission to be able to do? What powers do you want it to have because I assume it will have the same powers in all countries? What is your goal?

Mr. KANTOR. Yes. It will. And that is something, Senator, I think, that we need to be not only cautious, but properly respectful of, not to tread on, not only the sovereignty of our neighbors, but our own sovereignty.

This agreement works both ways. I guess the saying is, what is sauce for the goose is sauce for the gander in this situation.

Sovereignty and the exercise of the supernational powers are two concerns that we are going to address as we look at these supplemental agreements.

You mentioned the environmental agreement. Let's take that agreement, without revealing our negotiating position, which I know you do not want me to do. It will have the potential for a commission to review in the environmental area a concern, whether it be a concern that was raised by a country or raised by a nongovernmental organization or raised by an individual under proper circumstances.

One, the commission could rely on exclusively public information. That would be one thing the commission could do. If it did not go any further than that, the commission, of course, would not have probably the access to information that was necessary to reach a proper conclusion.

You could add to that the ability for the commission to request additional information or to request an investigation by the country in question, whether it be the United States, Mexico, or Canada.

Third, of course, you could add to it, the authority on the part of the commission to demand additional information or to demand investigation by governmental authorities.

Now, you might say, "Well, Ambassador Kantor," let me just anticipate what I think may be a natural question, "how would you enforce that demand?"

As you know, in the many international agreements, there is an authority to ask for or even demand certain material, make that public. And there is no enforcement mechanism that is put in place. The mere fact of making that public usually persuades a government to react properly in those circumstances.

We are looking at certain national, not supranational, enforcement mechanisms under the present NAFTA that might be available in connection with these commissions in order to make the powers—as I have spoken with Senator Baucus before—to review. I think investigate is the wrong word. Review certain policies helpful in the environmental area.

Senator PACKWOOD. Let's just take a for instance. Let's say on some kind of air quality standard, we have 50 parts per million and Mexico has 10. And that's their law. And they are enforcing their law.

Let me put it the other way around. Ours is 10 and theirs is 50. They are enforcing their law, but it is not as stringent as ours. You

do not picture this commission of being able to compel Mexico to try to change their law?

Mr. KANTOR. Not to compel. No.

Senator PACKWOOD. No?

Mr. KANTOR. Not at all.

Senator PACKWOOD. If you give them the information, they say, "Ours is 50 per million. We are meeting those standards." You publicize that. And the commission says, "We don't think this is very good for the air." and would suggest that perhaps you might want to do better, but that would basically be the end of it. We are not——

Mr. KANTOR. It might not be the end. Let me just say one thing, and let me be very careful.

The potential authority this commission might have is to review in the long-term what standards might be helpful because the environmental effects are international. They are not national. We all know that now. And we are all sensitive to it. And I know you are, Senator.

The fact is that to review that, to come up with recommendations, to submit those recommendations to the particular country—let's use our country for purposes of the discussion—and allow us to consider that in terms of changing our laws as a result of these recommendations would, I think, be perfectly proper and even helpful, both in the labor standards and environmental area.

No. We are not looking to give the commission power to impose on any particular country changes in their law.

Senator PACKWOOD. If Mexico—let's use Mexico as an example—does not change. They continue with their 50 parts per million. And the commission thinks 10 is more satisfactory. Are you suggesting that the United States could then take retaliatory trade action against Mexico because of that?

Mr. KANTOR. For not changing their laws?

Senator PACKWOOD. Yes.

Mr. KANTOR. I think that would be subject to grave consideration and very serious thought. I have not heard suggested anywhere that there will be sanctions imposed for not changing their laws on the basis of a commission recommendation. I would be very skeptical of that approach.

Senator PACKWOOD. But basically the authority of this commission, it may have rather extensive investigative powers, but in the final analysis, its recommendations are more a moral force than a legal force?

Mr. KANTOR. Well, let me suggest without being too explicit, there is potential to address enforcement concerns without getting outside of the NAFTA itself.

The CHAIRMAN. Could I make the point, Mr. Ambassador and Senator Packwood, that the United States has a long history of bilateral, binational agreements in this area.

The executive agreement with Canada on migratory birds was reached early in this century. The Supreme Court upheld it as law. Congress took the precaution of passing an act making it law, but it has since been agreed that executive agreements of that kind have the force of law.

The international labor conventions which we have been involved with since the late 19th century and which are formalized in the International Labor Organization defined countries, such as the United States and Mexico.

And, indeed, right now, the General Agreement on Tariffs and Trade occupies the original headquarters of the International Labor Organization.

So you are building on a tradition that is a century old and essentially very valuable.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Ambassador, I would like to follow up on NAFTA, in particular on the environmental side agreements.

As we know, this agreement, NAFTA, is breaking new ground insofar as this is the first time the United States has negotiated a free trade agreement with a developing country.

The prior two agreements, the Israeli-United States Free Trade Agreement and the United States-Canadian were with developed countries. Therefore, it is easier for us to reach an agreement with those two countries.

It is far more difficult with Mexico. Mexico's median age is 18. The United States' is about 33.

The population of Mexico is 86 million. America's is 250 million. The average wage rate in Mexico is between one-tenth and one-fifth of that of the United States.

It is a very difficult task to put together an agreement between a developing and a developed country.

It is also true that there are immense environmental problems along the border and in Mexico that will have an adverse environmental effect and also an adverse economic effect with respect to trade between the United States and Mexico.

It is also true that the environmental laws in Mexico are very similar to the environmental laws in the United States. The problem is enforcing the environmental laws in Mexico.

It seems only obvious to me that now that we have NAFTA, we have an extraordinary opportunity to try to address the environmental concerns between our two countries from both an environmental perspective and an economic perspective. Under a good agreement, Americans and Mexicans can enjoy both the benefits of that environment and an even economic playing field.

I think therefore that it is critical. It is crucial. It is imperative that you negotiate a side agreement that goes as far as you possibly and reasonably can to enforce those environmental concerns and at the same time respect our respective national sovereignties.

And I think there is a way to do that. And you know the proposal I sent to you. I think we can also address some of the reciprocity concerns that have legitimately been raised by various people, who ask, "Gee, we ask Mexico to enforce its environmental laws. What happens when they ask us to enforce ours?"

That's a legitimate question. And I think what is sauce for the goose is sauce for the gander. Let's recall here now. With respect to every environmental law in America, almost any American has individual standing to sue, whether it is the Endangered Species Act, is the Clean Air Act, the Clean Water Act, NEPA, whatever

it is. The only exception is FIFRA, the Federal Insecticide, Fungicide and Rodenticide Act.

Second, we can write an environmental side agreement that first deals with different standing to sue. There can be very definite ways to limit standing.

The second point is the burden of proof. With respect to American environmental laws—and again, almost any American has standing to sue to try to enforce American environmental laws—the burden of proof is basically the preponderance of the evidence.

We can provide for a burden of proof which is more difficult, harder to meet. And third, it is important to realize that frankly some of the problems that Mexico faces are problems that should be dealt with anyway.

And so my basic point here is we have to move forward. We have the obligation to move forward to reach an agreement with respect to enforcement of Mexican and American and Canadian environmental laws. We can do it in a way that does not unnecessarily intrude upon or encroach upon legitimate American business interests.

And let's not forget. There is a third difference here, that is, we are only talking about instances where failure to enforce environmental standards in another country has an adverse, competitive effect on an American company.

So I am really trying to put to rest some of the concerns about reciprocity. There are ways to deal with reciprocity, and we have an obligation to do our best to try to do that.

And I would just like your reaction, please.

Mr. KANTOR. Well, I agree with that. Let me just say that this is the greatest disparity in income and wages between two countries that have ever joined into a free trade agreement.

And I think—unless the chairman corrects me with his vast knowledge of history, I think that is correct, a much greater disparity than between Spain, Portugal, and Greece and their European partners when they joined the European Community. And that causes an obvious difficulty that we are wrestling with here today.

Number two, we have some things that we have to do even in advance of or along with these commissions. Let's not forget. First of all, we have to do something about any dislocations that might occur here in this country. And Secretary Reich is working very hard on that.

Dislocation, I found a Washington word, Mr. Chairman, to mean unemployment. That means when people lose their jobs, we have to do something about that, whether it is a defense base that is closing or as a result of NAFTA.

And hopefully, there will be very little. We are going to address that issue and address it in an overall and comprehensive manner. And Secretary Reich is working on that.

We also have border and environmental problems which have to be addressed. And we all know that. And this is no partisan issue. This is something that must be done.

In terms of environmental laws in Mexico, you are absolutely correct, Senator. They are, in fact, as good as ours in most instances, as are the worker standards and worker rights.

Frankly, in worker rights, let me say, they have gone beyond this country, at least on paper in their constitution and in their laws. The question is one of enforcement.

And I would only recommend and commend to the committee and its staff something we have discussed in private. In the intellectual property rights section of the NAFTA itself, Mexico has agreed to certain fundamental changes in their legal system dealing with intellectual property rights.

Let me suggest, not too subtly, that I believe worker rights and environmental rights are similarly important and that we might be able to discuss profitably with the Mexican Government in these side agreements the implementation of similar procedural changes in their court system to ensure better enforcement of laws, including but not limited to something that I am intrigued by as someone who used to practice law, administrative decisions being able to be appealed to the court system for review.

I believe that the model in the agreement itself on intellectual property is a very fine starting point frankly, Senator Baucus, for looking at enforcement of these laws which are currently on the books in Mexico at this time.

And let me just end. I am sorry to take so much time, but it was a very important question. It is just not the competitive effect of implementing these side agreements. It is also the effect the environment has on both of our countries, which needs to be dealt with.

And the fact of not lowering worker standards, but raising standards for the whole continent, is not only good in humane terms, more important—I am the USTR—it is good in trade terms and economic terms.

We are going to have 100-million person consumer market in Mexico. We want their standard of living raised. We want workers to profit by their productivity in Mexico in order to help U.S. companies and U.S. workers.

The CHAIRMAN. And the specific provision in the NAFTA agreement now with respect to intellectual property rights, administrative decisions may be appealed to courts?

Mr. KANTOR. Yes. And let me read you this, "To be reviewed by judicial authority." And that is very, very important. In fact, I will submit for the record a review of the section on intellectual property, which has some very significant changes in Mexican court procedures, judicial procedures which I think will be very helpful in these other areas in which I indicated.

The CHAIRMAN. I wish you would do that. And thank you.

[The information requested follows:]

CIVIL AND ADMINISTRATIVE PROCEDURES IN NAFTA TO SECURE INTELLECTUAL PROPERTY RIGHTS

One of the challenges we face in the environmental and labor supplementals is getting the Mexican government to commit to allowing Mexican citizens and NGO's real opportunities to effectively bring suits to enforce the laws of the country that are on the books.

In considering this problem, it is noteworthy that the Mexican government committed, in Articles 1714, 1715 and 1716 of NAFTA, to a significant set of civil administrative and judicial procedures for the enforcement of intellectual property rights. These include:

- written timely notice for defendants, including the basis of the claims

- representation by independent legal counsel
- the right for all parties to substantiate their claims and present relevant evidence
- procedures to identify and protect confidential information
- decisions on the merits, preferably in writing, and preferably stating the basis for the decision
- decisions based only on evidence on which parties were offered the opportunity to be heard
- opportunity for final administrative decisions to be reviewed by a judicial authority

These articles also include specific provisions on issues related to infringement, including provision for monetary damages, injunctions, measures to preserve evidence and authority for the courts to order production of evidence and to make decisions taking into account the fact that a litigant has not provided evidence within its control. Obviously, the latter provisions were carefully negotiated to cover particular issues in the intellectual property area. But overall, these articles represent a precedent for Mexico to agree to establish procedures that would enable its citizens to vindicate rights in the environmental and labor standards area.

The CHAIRMAN. Senator Roth.

Thank you, Senator Baucus.

Senator ROTH. Thank you, Mr. Chairman.

Mr. Ambassador, in your opening statement, if I understood you, you indicated that in the case of the Uruguay Round that substance was more important than an early agreement, particular in respect to market access.

Now, in the case of NAFTA, you said you would not reopen that agreement because it had been agreed upon.

My first question to you is, in the case of the Uruguay Round, are you saying you are willing to open questions that tentatively have been agreed upon? Or are you taking the same position on the Uruguay Round that you have taken on NAFTA?

Mr. KANTOR. In the Uruguay Round, there is so many open questions on the table, I think I would be very cautious in reopening questions that have been settled, at least those questions that we can live with.

I have had grave concerns, as I have expressed to this committee, about the Blair House Agreement, especially in terms of base year in agriculture and how it affects export subsidies and the fact that we filled an advantage for European farmers, as Senator Daschle knows very well and Senator Conrad who is now here knows very well. I have also raised the issue on the oilseeds portion of that agreement.

The U.S. agricultural interests—and let me be very careful here—are at least willing to look at the market access we are able to negotiate. If that is good enough, if that really opens up markets, not only in Europe, but around the world to U.S. agricultural interests, and we don't start at a lower base as the Europeans wanted in January than we are right now, and if we can disaggregate, as they say, commodities and really open up market access to this area, then, in fact, the Blair House Agreement might be acceptable because as a total package, it would be helpful to our agricultural interests. I am using that as an example, Senator, of something we have raised.

But we have so many other issues that are open on market access and industrial products and services, on intellectual property rights, on services, on audio/visual, on the language on antidumping that is currently in the draft final agreement, that we have

enough on our plate, that if we can have satisfactory arrangements as soon as possible, not delaying, with the European Community, then, multilateralize that, then, I think we would have been successful.

Senator ROTH. Do I understand you to be saying then, as a matter of policy, you will not want to reopen areas on which there have been reached agreement?

Mr. KANTOR. As a matter of good sense and strategy, Senator, I will try to get what we need and want and what I think is productive, not only for this country, but for opening world markets.

And I am willing at that point, as I think you would be and you would advise me to, maybe swallow some things in other areas that have been agreed to that we might not have negotiated in the first instance, but are in the agreement as it presently exists.

Senator ROTH. The Economist, the respected British magazine, in a recent article makes the statement that if there are undue delays in the Uruguay Round and a lot of issues are brought back up, the Uruguay Round could die. As a matter of fact, it quotes the Prime Minister of France, calling for the GATT talks to "start again from scratch."

How much of a problem do you see in concluding the round? Do you think the Uruguay Round is in danger of failing?

Mr. KANTOR. I do not think it is in danger of failing. I think that it needs to be resuscitated in the sense that momentum needs to be created. I think there is a balance to be struck, Senator, if I might, not avoiding your question, but trying to be realistic.

Between acting too fast and not fully reviewing the Dunkel text and having a good agreement in these many areas that I mentioned, versus going too long and having the Europeans and others believe that we are not committed to the Round. Somewhere in between these two extremes—and I set them up obviously for rhetorical purposes. Somewhere between these two extremes is a time that we can reach agreement where we can get a good agreement, one that is successful, one that will open markets and expand trade, but will not be one in which we leave a lot on the table and therefore cannot frankly come here on a bipartisan basis and sell it to the Congress because you are going to say, "Kantor, what are you doing here? You did not get what we needed for a successful world trading system."

There is a timing issue. It cannot go too long. I agree with the economist on that. I have not agreed with much that they have said lately, especially about me, but that is okay. [Laughter.]

But the fact is, they are right about that. We are very sensitive to it. I talked to Sir Leon Brittan yesterday by phone. And I think he thinks that we are on the right track in terms of timing.

Senator ROTH. One final question, Mr. Chairman, in the opening remarks, some comments were made about the importance of integrating trade policy with the domestic economy, something I think we can all agree on.

The difficulty is when you begin to apply that policy. For example, so often trade is used as a means of trying to force certain conduct. Take China, for example, and Most-Favored Nation Status. Some people think that we should not grant them MFN status because of their human rights conduct.

Agriculture, in many cases in the past by both Republican and Democratic administrations, has been subject to trade sanctions.

My question is, how will this administration reconcile the desire to put trade as part of the domestic policy to improve our opportunity to export vis-a-vis foreign policy and other kinds of conduct that we think is desirable?

Mr. KANTOR. I think in two ways this administration has made it clear that it will do so. And we are currently, by the way, reviewing our policy towards China. As you know, it is quite complicated and has many implications beyond trade, but not really beyond trade.

The President has made clear two things: one, that our international security is based upon our domestic economic strength.

And if we are going to provide world leadership, number two, we must be strong at home. And therefore, we must have a trading system or a trading regime or a trading policy that is part and parcel of this domestic economic concern.

And I think the President laid that out quite carefully and quite successfully in his American University speech. We are trying to carry that out.

As we try to implement that, it means you do not react all the time to things that come to you. You try to reach out and do things that are positive in nature and, if I might be euphemistic or colloquial I guess, to get ahead of the curve.

We have chaired this year the Asia-Pacific Economic Cooperation forum. That is the first time we have chaired that group.

We are going to try to use that to really open up and put a framework around this conference which includes China, by the way, includes Australia, New Zealand, and all the Asian nations, and begin to look at that as a way to build a much broader network trading regime with the largest and fastest growing market in the world.

It is something that has not been done. And we are going to look forward to trying to do that as we go forward into the fall.

The CHAIRMAN. Very well. Thank you, Senator Roth.

Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mr. Ambassador, you would say that it is fair to say that without the NAFTA, the North American environment would be worse. Is that not correct?

Mr. KANTOR. That is correct.

Senator BRADLEY. So that when we talk about——

Mr. KANTOR. With the supplemental agreement. Let me add that.

Senator BRADLEY. Put the supplemental agreement aside. If we did not have the NAFTA, would the environment be worse or better?

Mr. KANTOR. It would not get better.

Senator BRADLEY. It would not get better.

Mr. KANTOR. I think I would be a little more cautious, but it would not get better.

Senator BRADLEY. So the NAFTA itself improves the environment for all the obvious reasons?

Mr. KANTOR. Yes.

Senator BRADLEY. Income rises, interaction with another society?

Mr. KANTOR. I have to agree with that.

Senator BRADLEY. Pressures to improve, shared commitment to border clean up.

So the point is that the NAFTA as it now stands will create a dynamic that will improve the environment in North America. Now, your point is that you would like to try to do a little better on the environment and on labor standards.

Could you share with us succinctly your specific objectives in each of those negotiations? What would you like to see, not in all of the procedures, but what do you want to achieve?

Mr. KANTOR. Let me try to be as succinct as possible. And some would say that is difficult for me, but I will try, Senator.

These mechanisms, these commissions or other actions we take will do four things: one, improve environmental and labor standards and conditions; now, two, enforce environmental protection measures and labor standards as we were speaking about earlier; three, improve the United States-Mexico border environment; and four, ensure that this NAFTA package to the extent possible supports increased income and prosperity and improved social conditions in all three countries.

Now, let me just add very quickly to that an overview of how strategically to go about that. Without getting too detailed again, I find this job very interesting. On the one hand, I have a real obligation to be here and be as open as possible and speak to you and speak to the American people and the people who pay my salary. On the other hand, I have to go out and negotiate this thing.

One, to look at measures or standards of how these commissions or how we will go about it; two, to look at the review powers of the commission; three, to look at what role private citizens, nongovernmental organizations might play in this; four, what oversight or enforcement powers might be exercised?

And I want to be a little careful there because that is where you get into sovereignty and supranational concerns.

And last, what structure these commissions should take. And I think that is exactly what we are trying to achieve. I know that is what we are trying to achieve. Without getting into any greater detail as to what options are on the table, I would like to stop at that point.

Senator BRADLEY. All right. Your first two points are improvement and enforcement. We are talking in our respective countries?

Mr. KANTOR. Yes. We are, Senator.

Senator BRADLEY. We are talking about laws being enforced in Mexico that are in the book and laws being enforced in the United States that are in the book.

Now, let's say a Mexican environmental group does not like the pace of toxic waste cleanup in New Jersey or mine rehabilitation in West Virginia or Wyoming or clean air enforcement in Los Angeles or whatever, how are we going to prevent them from kind of messing around in every law that we have on the book?

Mr. KANTOR. Well, first of, Senator, they would have a standing problem in U.S. courts is my first answer to that question.

Number two, as Senator Baucus said, U.S. groups can, of course, bring and do bring those suits all the time.

Number three, what would be available to Mexican citizens groups, as you are referring to, would be a commission on environment where they could petition the commission theoretically. Let me be a little careful. Theoretically, ask them to look at a particular issue, review it, give a recommendation, and go back to the government in question, in this case the United States, and recommend changes or enforcement.

Beyond that, we would have to deal with some enforcement powers in the NAFTA itself.

Senator BRADLEY. So that, as I hear you describe the commission, they primarily would spotlight problems. They would have no authority to require changes in domestic law of the respective countries or no power to effect enforcement if that enforcement was lax in New Jersey or Mexico?

Mr. KANTOR. Let me take your second. The first is clearly—no, they would not have the power to go and enforce laws in the United States or to go in and enforce laws in Mexico.

But let me take a step backward on your second, after petition, review, consideration, recommendation, submission—which I know Senator Baucus has talked about in his speech last month—let's say on the environment, submission to the government in question, failure to act on the part of the government, there, at least discussions within the administration of what might be done in enforcement.

Beyond that, not by the commission, but by the governments themselves, under the NAFTA, if you look at the present arrangements for trade violations, now——

Senator BRADLEY. So that——

Mr. KANTOR. Let me be quick to add. These are only discussions.

Senator BRADLEY. Yes.

Mr. KANTOR. No one has gone any further. It is just on the table right now for discussion.

Senator BRADLEY. Well, let me suggest that giving Mexico the opportunity to block exports of U.S. goods to Mexico for some failure of implementation of a domestic law here would, I think, not be a recipe for either good cooperation or for achieving the objectives.

Mr. KANTOR. Yes.

Senator BRADLEY. My time is up.

The CHAIRMAN. Thank you, Senator Bradley.

Ambassador Kantor, you are going to be very close, in weekly consultation with this committee as Senator Bradley's issues are developed in your own mind. I mean, it will help us surely. And I hope it might help you.

Senator Danforth.

Senator DANFORTH. I simply want to point out at the outset, Mr. Ambassador, that I share the concern that some other Senators have expressed about the side agreements and about the quagmire that these side agreements might create, but that is not what I want to talk to you about this morning.

Let me get back to the subject of Airbus. Do you have any real doubt that Airbus has received huge subsidies from the European governments—in the neighborhood of $26 billion—and that Airbus would not even be in existence but for those subsidies?

Mr. KANTOR. Let me take your first question. Now, the Gelman Study done by the Department of Commerce in the previous administration, I think, made it quite clear that the subsidies probably indirectly may have gone up to $13 or $14 billion. And if you apply the proper market interest rates, it would be about a $26 billion, I think is the figure, subsidy.

No, I have no doubt that has been done, number one.

And number two, if you just look at what has happened to market share, it has gone up to what? Thirty or 35 percent as a result of this financing.

Senator DANFORTH. I think it is 28 percent worldwide.

And 44 percent in the United States.

Mr. KANTOR. I think that this is one of those issues that is fairly clear, that without the subsidies, without the—let's call it unusual financing—that would not be available to a private company in this country, they would not have been able to obtain the market share they obtained.

Senator DANFORTH. It should be a good countervailing duty case, shouldn't it?

Mr. KANTOR. Let me not play the jury here. Let me just say that if any particular company wanted to bring an action, they would have every right under countervailing duty laws to do so.

Under the agreement that was reached in the prior administration, which you referred to you in your opening statement, we agreed not to self-initiate as a government a CVD action in this area.

Senator DANFORTH. Well, the executive branch agreed to that, but as you know, international trade agreements are within Article 1 of the Constitution. There is Congressional prerogatives.

And this was something that was never agreed to by Congress. In fact, we had a sense of the Senate resolution, didn't we? We did. I mean, it was my resolution. [Laughter.]

Mr. KANTOR. I am quick to agree that you must have had one.

Senator DANFORTH. The agreement, however, or what passes as an agreement or what is alleged to be an agreement would do nothing about the past $26 billion of subsidies.

In other words, if the countervailing duties were imposed, they would be able to cover the $26 billion in past subsidies. However, the nature of the agreement condoned the $26 billion in past subsidies and allows certain future subsidies.

Mr. KANTOR. It does for development, as you know, up to 33 percent.

Senator DANFORTH. And the full $26 billion is forgiven.

Mr. KANTOR. Under the agreement—and I do not mean to be defensive. I did not negotiate this agreement. Under the agreement, let me be careful to add, we have a right to certain information which we have now requested which shows that the day after the President spoke in Seattle, we wrote to our European counterparts and asked for consultations as quickly as possible and to provide the information that was due under the agreement to determine whether or not the $26 billion or the direct subsidy is being paid back at the proper interest rate or is being paid back at all.

One of the problems we have, of course, is the accounting practices of the four partners in this are somewhat murky to say the least. We are going to have those meetings in late March.

Now, let me indicate without going any further because I haven't seen—we obviously have not had access to the information that we have every right to. If the information indicates that the money is not being paid back or the interest rate is not being applied, that we have every right then to look at the agreement in terms of whether or not it should stay in force.

So, in fact, we do have some options here that might not appear so clearly at first.

Senator DANFORTH. All right. I would simply say that it would be my hope, particularly based on the President's recent statements that the administration would take a very hard look at that agreement with the view toward enforcing rights that were previously negotiated in the Subsidies Code, and that the only reason to negotiate a subsidies code is to use it for the best interests of the United States. Otherwise, any kind of international agreements are not worth anything at all.

Mr. KANTOR. Let me just add, if I might, Mr. Chairman and Senator, that one of the things we are looking at closely in the Uruguay Round is the subsidy section because we are not satisfied with it—subsidies are in a traffic light agreement, they have a green light non-actionable under CVD, dark amber those that can be presumed to cause injury, yellow light actionable under CVD.

And we may want to look at that green light section and see whether or not it is too liberal, in fact, in allowing subsidies.

The CHAIRMAN. Thank you, Senator Danforth.

Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman.

Mr. Ambassador, out of fear of sounding a little bit like a broken record, I raise again the issue of agriculture.

There is a concern throughout this process that it really has not been a very bright blip on the radar screen for a lot of people, most notably your predecessor. And I guess the jury is still out as to the degree to which this administration will be looking at the agriculture provisions of this agreement.

And I suppose, as I said earlier, the biggest concern that we have is the degree to which we lock in this ability on the part of the Canadians to subsidize their products without any ability on our side to do much about it.

There is a concern about how we will resolve disputes when they have an agreement with us and a separate agreement with Mexico. And it is very unclear to me how we are going to resolve disputes in the context of these separate agreements.

Secondly, even if we can conclude that the Canadians have locked in an advantage with regard to subsidization, the degree to which we understand that advantage is related directly to the degree that we know their is subsidization is continuing.

And so we have no ability, as I understand it, without transparency of coming to grips with that question, even to pursue it through a dispute resolution mechanism.

And then, there is a third issue. Assuming for the moment that we really cannot look at transparency with any satisfaction, how do

we deal with it? How do we deal with it in a dispute? How do we deal with it unilaterally? Is it considered countervailable?

We talked about this earlier. And I think, for the record, it would be very helpful for this administration to explain their understanding of our options outside, of course, of using subsidies of our own.

I would like for you to address those points.

Mr. KANTOR. Thank you, Senator. Yes. I would be happy to do so. I cannot speak for my predecessors in this job, but I hope you understand that we have paid some attention to this and spent some hours on this.

We do not have a lot of options with regard to Canadian Durum wheat, as we have discussed. The Binational Panel, of course, came down with a decision which I was disappointed in, as I know you and Senator Conrad and other of your colleagues were also disappointed. But that is not the end of the ball game, as they say. We have not come to the ninth inning yet.

In April, I am meeting as a co-chair of a commission to review this decision. I have very limited power in this review, but one power I do have is to implement the panel's recommendation that we have an audit with the Canadian Wheat Board and their use of rail and other matters that have helped their wheat farmers and have, I think, amounted to a large subsidy for Canadian wheat.

We would like to implement that audit as soon as possible, not the 7-year timeframe that seems to be the point of the realm in international agreements, but as soon as possible, hopefully in a 90 or 120-day timeframe, if that is rational, bring in a third party, a neutral party to audit these matters.

If they find what we believe to be there, we are prepared and ready to bring a new case in front of a binational panel based upon evidence which was not available to us, as you know, because we could not force that evidence, and then be able to deal with the problem, we hope.

Now, that is, I think, the most viable way for us to proceed.

And let me just say, let me answer your third question, yes, it is countervailable, if we find there has been a violation.

Senator DASCHLE. Well, you said in response to an earlier question that you would walk away from a bad agreement. I would hold this out as Exhibit A that we have under these circumstances, at least as far as agriculture goes, a questionable agreement. And I am very concerned even about using the audit procedure that you outline. I recognize that it is an option for us, but the audit procedure takes so long.

And given that length of time, our inability to deal directly with the transparency issue prior to the time we have to resolve the overall agreement leaves many of us with a great deal of concern.

What if the audit doesn't produce anything? What if we have additional disputes in the future and a lack of understanding as to how we resolve those disputes on a three-party basis?

But I am very concerned about that. And, frankly, I am not sure the audit is going to be good enough. And I would hope that we could find another way, that we could resolve this issue with the Canadians prior to the time many of us are called upon to vote on NAFTA itself because it is a very, very big concern.

I am also concerned about their ability ironically even to use our own export promotion program. And so I would be interested in knowing—in what brief time I have left—what your view is on that. [Laughter.]

Given the ability to extend my 10 minutes.

How do you view the use of end-use certificates? Would you be supportive of utilizing end-use certificates to ensure that the Canadians are not able to use the export subsidies that we have?

The CHAIRMAN. Senator, would you help us? What kind of certificate?

Senator DASCHLE. Mr. Chairman, these are end-use certificates.

The CHAIRMAN. End-use.

Senator DASCHLE. They document where the grain has come from in order to ensure that, as subsidies are applied, those subsidies are applied to U.S. products, not to foreign products.

Mr. KANTOR. Let me say two things. One, Secretary Espry is looking at the end-use certificate situation right now and will be consulting on that. I think we both would be happy to come see you and talk with you about that.

Number two, in the Uruguay Round, if, in fact, we can get a market access package in agriculture that makes sense, clarify these non-tariff barriers, that has potential—that has potential.

Let me not overstate the case. It will not solve all the problems, but it has potential for verification of some of the problems we are talking about in lowering those barriers and being helpful as well. So we are not without some options.

Let me say, I am as frustrated as you are with this problem. I find that I do not have as many options with this particular problem as I have with others.

The CHAIRMAN. Thank you, Senator Daschle.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Kantor, I'd like to refer to page 12 of your testimony, at the bottom of the page. I am extremely interested to discover that we currently have a trade surplus of $6 billion with Mexico. One of the experiences that you will have before this committee, Mr. Ambassador, is that there are certain members of this committee who rail against any nation that has a trade surplus with us.

Somehow it is all right for us to have a trade surplus with another nation, but it is per se evil for the other nation to have a trade surplus with us. But I am very pleased that we this trade surplus with Mexico.

I would also like to stress that the accent always seems to be on the argument of those who attack the NAFTA: that American companies will flee to Mexico. Yet you well know that they can go there now already. And, indeed, some have.

But I think what we also should accent here is the tremendous market that Mexico represents to U.S.-made products, exemplified not only by the $6 billion surplus, but by the fact that over the past 5 years, our exports to Mexico have grown by more than 300 percent.

You yourself note this page 12. This is a point it seems to me that we must accent. This all represents jobs.

I must say, Mr. Ambassador, I frankly am very, very concerned over these side agreements you are going to attempt to negotiate. I think it is going into a morass because, as you say, on one hand you are not going to alter the basic agreement, but on the other hand you are going to negotiate these side agreements. I am just not sure what they are going to do.

That noted American philosopher, Yogi Berra, said, "You can see a lot by looking." And so I followed his advice and went down to Mexico City.

And there I saw a lot of progress. For example, in Mexico City, every vehicle in Mexico City has to be checked, not once, but twice a year for emissions, for tailpipe emissions. These emission checks are done by a bribe proof machine that prints out a record that tells you if you don't pass and why you have not passed. If you pass, then, a printed sticker to that effect comes out of the machine. It is extraordinary. Every vehicle in Mexico City has to have this sticker, indicating that they have been approved for the following 6 months.

This is impressive. But is it possible that under the side agreement, somebody in Mexico could go after, say, Los Angeles for not having similar emissions technology? I do not know.

I do not want to be harsh, Mr. Ambassador, but I have a feeling there is a lack of a sense of urgency. I know you have said: "Don't worry. We are going to have it done by January 1st" which is the commencement date of the NAFTA, but pretty soon this Senate is going to be choked up on a whole series of measures, whether it is the economic policy or the health care or a number of other issues.

And let me note that you are not going to be able to satisfy the AFL–CIO on this. Any suggestion that you can, I think is erroneous. They did not approve of the Canadian Free Trade Agreement we entered into in 1988. And they are dead set against this agreement. So there is going to be opposition to it.

Would you do anything to allay my concerns about this perhaps inaccurate belief I have that you haven't got a full court press on this. Am I inaccurate? I would be happy to discover that I am.

Mr. KANTOR. First of all, I would never say that you are inaccurate, Senator. I would never do that, but I would quote the same philosopher, Yogi Berra, who said, "It's not over until it's over." And that means that we are doing maybe a lot more than meets the eye.

Let me just indicate, we have been in office 6 weeks. Now, you cannot use that excuse forever. And I am not using it. I am going to say what we have done in these 6 weeks which I think is due to—not me, but a terrific staff and some wonderful help from this administration and a push by the President.

The President has met with President Salinas, as you know, as the President-elect. I have met with the Chief of Staff, Mr. Cordoba. I have met with Serra Puche twice. I have met with the new Mexican Ambassador to the United States.

We are going to start our discussions of these issues on March 17 and 18. We have a framework which we worked out yesterday, Minister Serra and I, for timing and also a framework of what should be discussed.

We have literally put these things into motion and are underway. I think Senator Bradley has indicated the timetable that makes some sense and, I think, we can adhere to.

If you don't think there is a full-court press, then, I have not been articulate enough here today or earlier with you. This is of great concern to this administration.

We want this agreement to be put before the Congress. We want it passed by the Congress. We want it to go into effect. And 1–1–94 is the goal. And the President has made that quite clear.

And I do not know much more to tell you that we could have done, frankly, during this period of time.

Senator CHAFEE. Well, thank you, Mr. Chairman.

I do want to just reiterate that sometimes the view of this agreement it seems to me gets twisted. It is not an environmental agreement with some trade aspects. It is a trade agreement in which there are some environmental aspects. Principally, we are seeking a trade agreement.

And I commend you for your statement. Certainly we will be doing everything we can to follow it as closely as possible.

Thank you very much.

Mr. KANTOR. Thank you, Senator.

The CHAIRMAN. Thank you, Senator Chafee.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

I am going to try, Mr. Ambassador, to ask you three questions in 5 minutes, but not before commenting on something that you said about your general counsel, I happen to think that Ira Shapiro is one of the big thinkers on trade issues. I think he has been that for a long time, way back before he came on any of our radar screens. He also knows this institution cold.

I think you have a really, really good trade person in your general counsel. I congratulate you on that selection.

Mr. KANTOR. Thank you.

Senator ROCKEFELLER. In my opening statement, I talked about the need, in my point of view, to integrate trade policy with competitiveness policy here in our own country and in a sense to try to identify industries that are in the process of getting into trouble, any industrial problems, or you might say, sectoral problems, and then try to deal with those before they become trade problems to the extent that that is appropriate for the government to do.

Now, one, are you conceptually thinking about that matter? Second, is the administration willing to structure itself to respond to the conceptual thinking about that matter? Has that been discussed?

Third, how does trade policy in your judgment fit into that mix? And fourth, how does the Committee on Foreign Investment in the United States, CFIUS, with respect to foreign investment, how does that fit into this problem? And is there a relationship between USTR and CFIUS? And if not, should there be?

Mr. KANTOR. Let me take the first three. And I might even have Mr. Shapiro answer the fourth on that or at least give me some direction on that.

Senator ROCKEFELLER. And I have two more, but if you want to——

Mr. KANTOR. I will very quickly——

Senator ROCKEFELLER. Answer the first question.

Mr. KANTOR. The answer is yes. Conceptually, obviously trade policy is connected to an integrated economic policy, as I indicated in my statement.

Two, the structure, in fact, is working very well. The use of the National Economic Council and the NSC with a trade person in the White House, frankly, in between the two working with us literally on a minute-to-minute basis has worked very well to integrate both our economic policies and our trade policies.

Senator ROCKEFELLER. And the CFIUS one, you can answer in writing if you want to.

Mr. KANTOR. I would be glad to.

[The response to Senator Rockefeller's question follows:]

Question. How does the Committee on Foreign Investment in the United States (CFIUS) fit into this problem [integrating competitiveness policy with trade policy]? And is there a relationship between USTR and CFIUS?

Answer. USTR is one of eight member agencies of CFIUS, which is chaired by the Treasury Department. The role of CFIUS is to administer the Exon-Florio provisions of the Omnibus Trade and Competitiveness Act of 1988, specifically Section 5021 (which amends the Title VII of the Defense Production Act of 1950). CFIUS advises the President on the national security effects of proposed mergers, acquisitions, or takeovers which would result in foreign control of U.S. companies engaged in interstate commerce. The President may suspend or prohibit the transaction if:

> "(1) there is credible evidence that leads the President to believe that the foreign interest exercising control might take action that threatens to impair the national security, and
>
> "(2) provisions of law, other than this section and the International Emergency Economic Powers Act (50 U.S.C. 1701–1706), do not in the President's judgment provide adequate and appropriate authority for the President to protect the national security in the matter before the President. "

To improve the formulation and implementation of international trade policy, the NEC and NSC jointly established several working groups, including one that will examine inward U.S. foreign investment policy. USTR will be a member of those working groups.

Mr. KANTOR. And our trade policies, how they fit in. The President made it clear that when $1.6 trillion of our gross domestic product is bound up in trade, trade has become a vital part of what we do and how we do it in terms of growing this economy.

Senator ROCKEFELLER. Number two, the Advisory Committee on Trade Policy and Negotiations recently issued a report in which it recommended that we as a nation adopt something called TQI, which is temporary quantitative indicators, with respect to Japan, as the only means, in effect, of dealing with non-tariff and invisible barriers.

Have you thought about that recommendation? Do you have a sense of your reaction to that recommendation?

Mr. KANTOR. Yes. In fact, it is a very impressive report done by Chairman J.B. Houghton and under the leadership of Jim Robinson. The fact is that there is great interest in this administration in the TQI approach, not only with regard to Japan, but in other areas as well, especially with regard to strategic industries which you referred to earlier, Senator.

Therefore, yes, it is under active consideration. The President has spoken of it. The President, in fact, has read that report. And we have spoken of it. And, in fact, he came to the ACTPN meeting

last week and spent 45 minutes talking to the ACTPN members about that and other subjects.

I think it is an extraordinary commitment of time by a President with a trade advisory committee, which might indicate his interest and concern for this subject.

Senator ROCKEFELLER. I think it surely does.

Finally, I have spent a lot of time over the last 6 years—totally fruitlessly, I might add—on the Japanese patent system, the question of slow examinations, narrow claims, a virtual requirement that we have to give up our patents in order to get new business with them.

I mean, it is a classic technique which is used there and in particularly bad in high technology where shelf life is very short. They stretch it over a long time.

Now, in your judgment, do we have an existing trade law remedy that can be used to prevent or to discourage Japanese companies from using these various techniques which then prevent us from becoming leaders in terms of getting into their country?

And then, my final question is that I have, in the event your answer is no, put in a bill, S. 149, that would make these practices actionable, the Japanese patent trade actions, actionable under 301. And I would appreciate if you would take a look at that and respond to me, not now perhaps, but later in writing.

Mr. KANTOR. Yes.

[The following information was subsequently received for the record:]

The administration has not taken a position on the Rockefeller bill and those considering the political implications of the issue rather than the patent substance will likely differ on the response. It will take quite some time to develop a consensus position.

Senator ROCKEFELLER. But the question is, is there a trade policy that can be applied to Japanese or other patent practices, particularly Japanese?

Mr. KANTOR. The answer is, if there is, it would not be easy. And I do not believe there are. That is my horseback, legal estimate.

I would be pleased to discuss this with you and respond to your future legislation. It is an obvious problem and one which will not get less, but will get bigger in the future frankly.

Senator ROCKEFELLER. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Rockefeller.

I suppose the question is responding to inaction which is a difficult thing to locate. There you are. You are not doing anything.

Senator Grassley.

Senator GRASSLEY. I think he was here before, Mr. Chairman.

The CHAIRMAN. It has been a matter of some complexity. You were at the earlier meeting.

Senator GRASSLEY. Well, if that qualifies me to go first, I sure want to go first. Thank you.

I want to—Mr. Ambassador, if I can, because sometimes when we on this committee tend to maybe bring up calculations and things like that, I want to say first of all that I feel that NAFTA is very good. And maybe these will detract from the overall goals that I seek.

Mexico happens to be Iowa's seventh largest trading partner. And I think maybe NAFTA is darn good for corn. It is pretty good for soybeans. And I think darn good for pork.

And agriculture is central to our economy because even though we export more manufactured goods than we do agriculture goods, dollar-wise, it is still out of our economy probably. Six jobs—even though only 10 percent of our people farm, six jobs are probably related to agriculture very directly.

So I want to say that I think NAFTA overall is pretty good. I think—see it as kind of a banquet cake just waiting to be cut and served. I think maybe some of our colleagues see it as a cupcake that is going to provide dessert for a few. I hope it is really very good for all of America.

And maybe also a comment on the Uruguay Round before I ask you some questions about NAFTA. It seems to me that we ought to keep the process going. I hope the Congress will give the President the authority he needs to continue.

And maybe something related to my State and agriculture again is the fact that if we don't keep the Uruguay agreement going, I think, maybe the agreements that we have made on oilseeds in November for the European Community which, of course, France is threatening to veto, may be a problem if we don't keep it going.

On the other hand, I hope your administration feels like I do and the previous administration did that a good agreement in agriculture is very important for an overall GATT agreement before we reach agreements in other areas. And I hope you feel that agriculture ought to continue to be a part of it.

Now, to some specific questions, and the first question deals with something that just happened last Friday by the Mexican Government. And if you cannot answer because it is so recent, feel free to say so and respond to me in writing later.

But just last Friday, the government through their Secretary of Commerce and Industrial Trade, initiated a dumping investigation against the U.S. pork industry. And Iowa is number one in pork production.

In the dumping case, the government will attempt to establish dumping margins on all pure-bred live hogs, all fresh, chilled and frozen pork products, and edible pork meat.

The Mexican Government has named five U.S. companies in El Paso, TX as a target of the investigation.

My understanding is that should the dumping margins be established on any pork product from any U.S. company, then, under Mexican trade law, the determined margin will apply to all U.S. pork products in that category that are exported to Mexico.

Given the existence of the current 20 percent tariff on live hogs and pork and pork meat products in Mexico, it is difficult to understand how a dumping margin could be established.

Therefore, what do you believe is the rational of this action by Mexico? And how will the administration respond to what I consider questionable charges of dumping?

Mr. KANTOR. As you know, it just came up on Friday. I am concerned about it. The first thing I would do is to raise the issue with Trade Minister Serra. We'd like to get back to you on that and work with your office on that situation.

As far as the 20-percent tariff and so on, one of the major reasons we need NAFTA is to get rid of those tariffs.

You are absolutely right. The NAFTA itself gets lost sometimes in the discussion of parallel agreements which are obviously important, but we are getting rid of tariff and non-tariff barriers. And this is just one of them that you just cited.

But I would like to get back to you on this particular action.

Senator GRASSLEY. It seems to me that that 20 percent tariff would be one less reason for Mexico to have to take specific action against a specific company, which, in turn, then, under—as I see their trade law, would apply then to all.

The second one would be the home appliance industry that I have spoken to you twice before. Could you tell me what the status is of negotiations regarding side agreements in NAFTA? And particularly, what is being done about the home appliance industry problem?

And if I need to explain that, they—we are going to allow them to send products into this country under no tariff. And for 20 years, we are going to have a slow phase out.

Mr. KANTOR. It is 10 years. It is not 20.

Senator GRASSLEY. Ten years?

Mr. KANTOR. It is 10 years.

Senator GRASSLEY. Ten years. All right. That 10-year slow phase out will put our companies in jeopardy, our industry in jeopardy.

Mr. KANTOR. Well, this may not be a satisfactory answer to you, Senator, but we do not want to reopen and will not reopen the agreement itself. There is a 10-year phase out on our side of that. And we are going to stick to that.

Senator GRASSLEY. Well, then, that is conclusive.

Mr. KANTOR. That is conclusive. Let me say with all candor that if we opened up, whether it is home appliances, others here, I think, would like to reopen on sugar and other matters, we would never get a NAFTA.

We would never meet the timeframe we are talking about. We would never reach this agreement. We would never open up this 100-million person market for the United States. We would never take care of some of the environmental and worker standards problems we are talking about.

Frankly, it would become a mess. And I would like to always give everyone the answer they are looking for, but I think in this case, I cannot. I have to tell you that we just could not reach that without reopening the agreement. And once we did, I think, we would be in for a large measure of trouble.

Senator GRASSLEY. And that is in all these areas, you suggest, where you have had complaints coming in. You mentioned sugar?

Mr. KANTOR. Yes.

Senator GRASSLEY. And those are always treated the same?

Mr. KANTOR. It is difficult, very, very difficult to reopen any area without reopening the agreement itself.

Senator GRASSLEY. I would like to submit another question.

The CHAIRMAN. Of course.

Senator GRASSLEY. Or two other questions.

Mr. KANTOR. Sure.

[The questions appear in the appendix.]

The CHAIRMAN. I think we all agree that not every answer we get from you, Ambassador, is all we would wish, but you are eloquent, as it is. You are keeping to your statement that we cannot open the agreement as such. And there you are.

I would like to take this moment to point out that in February, we read one morning that the Mexican Government was participating in a financial enterprise that was going to lure American firms to go to Mexico and take advantage of low-wage rates and the government subsidy that might be involved with the financing.

And I think you put a stop to that in about 24 hours. And I want to thank you for doing it. That is the spirit which—and I think they agreed that it was inappropriate.

Mr. KANTOR. Yes, they did. And they acted literally within an hour and a half after our meeting. It came up the night before. The Mexican Government had agreed to withdraw from that investment.

The CHAIRMAN. Well, that is a good sign about a situation where government has enormous amounts of power in trade and all activities and not the least, economics.

Senator Conrad, I note that a vote has been called as previously understood at noon on the question of invoking closure.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. I will try to be brief.

We remain very concerned about what is happening with Canadian wheat pouring across the border, durum and other wheats as well.

Just to put it in context, in 1986 no durum came into the United States from Canada, none. Now, they have 20 percent of the U.S. market, since the so-called Canadian Free Trade Agreement.

I call it so-called because in my judgment, it was not a free trade agreement at all. It was negotiated trade. And with respect to agriculture, the Reagan administration's negotiators lost the negotiation.

Now that they have 20 percent of the U.S. market, costing us hundreds of millions of dollars, the question is, did they do that fairly? Was it fair competition?

If it is fair competition, we have no complaint. But it is not fair competition. The Canadians have a transportation subsidy that amounts to 75 cents a bushel on wheat that sells for $3.50. That does not count.

They are able to come in here and sell secretly through the use of the Canadian Wheat Board. We do not know what their prices are. They know our prices every minute of every day on our markets.

And now, we have a binational panel ruling that says that's okay because our previous negotiators undercut the plain and clear language of the agreement by comments they made. Our own negotiators undercut our position.

Now I hear talk that we are going to have an audit of the Canadian Wheat Board. Frankly, I do not think that will do us a bit of good.

And I do not think it will do us any good because, very frankly, we are going to have to audit, I assume, on the basis of that bina-

tional panel ruling which says, when you look at the acquisition price of Canadian wheat, forget about the transportation subsidy.

Well, if you forget about 75 cents on a $3.50 bushel of wheat, you have given away the store before we ever get to the question of what is fair and equitable and right.

So I say to you, I think the audit is supposed to be held out to us as something that is going to do some good, but I do not think it is going to do any good. I think that is chasing a rabbit that leads nowhere.

I would say to you, the only way we are going to get a result is either tell our friends in Canada that, until this is worked out, there is not going to be NAFTA; or, number two, that we have the Commerce Department self-initiate a countervailing duty action.

This is costing our producers hundreds of millions of dollars. It is intolerable. It is not fair. And I intend to vote against this agreement, fight against it every step of the way, unless we get some resolution to what is so clearly unfair.

I just wanted to make that presentation to you. Perhaps, you have a response.

Mr. KANTOR. I understand your frustration. We have talked about it on many occasions. We are taking every avenue, as you know, we can pursue that is available to us.

As I said, not being defensive, we did not negotiate this agreement. We will do the best we can in pursuing those problems. And we would be glad to follow up on your last suggestion and discuss that as well.

Senator CONRAD. All right. Let me just ask quickly. I read in the Journal of Commerce last week that the Canadians could undercut the entire NAFTA agreement, the concessions that we have gotten if they devalued the peso.

And, in fact, there may well be an intention to do precisely that, devalue the currency, undercut the tariff reductions that have been negotiated.

As I understand it, there is nothing in this agreement about exchange rates. Is it possible, could it conceivably happen that Mexico would devalue, undercut the tariff concessions we have gotten here?

Mr. KANTOR. Well, I think that is always a possibility. As you know, in 1985 or 1986, this country devalued its currency in order to help our—we had a very bad problem, as you know, with trade, trade deficits.

Yes, that is possible. I do not think it is probable or even likely. I do not think it is in the best interests of the other two countries' economies or in the best interest of this agreement.

Let me say just to a friend, I believe that the Canadians and Mexicans are committed to this agreement and want it to work. I think they see it, not only in their interests, but the interests of the North American growth in general and so do I with the proper parallel agreements.

I understand your frustration over the wheat question. And I am not minimizing that at all. All I am saying is to lower these tariff barriers and to get rid of them, to lower then non-tariff barriers and to get rid of them, then, do such. To really protect intellectual

property in Mexico especially will have enormous, positive effects on the U.S. economy and U.S. jobs.

Therefore, that is why the President supports the NAFTA with the parallel agreements.

I understand your frustration about the wheat. And we will try to work with that in a way that hopefully is not chasing rabbits, but is maybe chasing elephants.

Senator CONRAD. I would just conclude, I hope that there is some way that we can protect on the exchange rate question as well. I am very concerned about that.

I thank the chairman.

Senator BAUCUS. Thank you, Senator.

Ambassador, I want to associate myself with the remarks of Senator Conrad and Senator Daschle with respect to the agriculture problems that this country has, particularly with Canada, but somewhat with Mexico.

Generally, when we negotiated the Free Trade Agreement with Canada, for all intents and purposes, agriculture was off the table. There were a couple of provisions that really did not amount to much.

Second, when the Bush administration negotiated the North American Free Trade Agreement with Canada and with Mexico, as you well know, the Canadians asked that all agriculture issues be taken off the table. They said, "Let's not negotiate it."

And the Bush administration agreed and took agriculture off the table.

That is galling in many respects. Number one, the prior administration essentially told the American agriculture community that it would surely address agriculture issues if it could get the agreement of the American agriculture community to support the request for fast-track extension.

Now, that the prior administration acceded to Canada's request to pull it off the table, they went back on their word. More importantly, they failed to address some very deep and very difficult issues that are hurting U.S. farmers.

It is not only the context of NAFTA not dealing with the subsidies questions and Canada, frankly, there are other issues that make it more difficult for American agriculture producers.

One is frankly this administration's economic plan which asks for deep cuts in American agriculture, which is tantamount to unilateral disarmament in negotiating with the Europeans in the Uruguay Round.

It reduces American leverage. When we negotiate with the Europeans, we go in and sit across the table from them and say, "Hey, by the way, we just cut our agriculture program that much more."

Do you have any response to that?

Mr. KANTOR. Yes. It is difficult. The President's economic package is critical. And we need to get it through. And I know you support it. And there is pain to be shared by a number of folks, including the latest action that would cut, I guess in some ways, COLA's for retired military personnel.

That does not mean that agriculture has gotten as good a shake as it may have wanted or needed. That is why the market access situation in the Uruguay Round is so critical.

And that is why, rather than look at a short-term extension of fast track, which we spoke about earlier where we could not get that on the table, I think, successfully and get it negotiated, we need enough time to get a market access package for agriculture, including tariffication, disaggregation, starting at a base level which is at least equal to higher than we are right now with the Europeans in order, as you know, to modify the great advantage European farmers now have over American farmers.

We compete because we are more effective and more efficient, as you know, our farmers, but only because of that. The internal supports, the external subsidies, the variable levies in Europe have given them enormous advantages.

In 1975, the greatest net importer of agricultural goods in the world was Europe, in 1985, the greatest net exporter of agricultural goods in the world.

Senator BAUCUS. I have often pointed that out many times.

Mr. KANTOR. Right. And what we need to do is to come back with a market access package to this Congress and the American people that makes sense in agriculture as well as industrial products.

Senator BAUCUS. I appreciate that, but I really have two questions here. One is the NAFTA. The other is the Uruguay Round. And I just urge you very strongly in the context of the NAFTA to address the concerns that I and many other Senators have raised with respect to agriculture.

It is a subsidy problem with Canada, which may merit CVD action. It is the need for end-use certificates. It is the need to use of the Export Enhancement Program to regain lost market share in Mexico.

There is a whole series of issues that have to be addressed while we are negotiating and concluding a successful NAFTA agreement.

In addition, while we are on agriculture, briefly, is this administration willing to address in the implementing legislation problems with respect to sugar?

Mr. KANTOR. You mean, in regard to NAFTA?

Senator BAUCUS. Yes. Right.

Mr. KANTOR. Let me speak about sugar just for a second. As you know, for the 6 years, the sugar quota remain exactly as it is now; 7,235 I metric tons, if I am not mistaken.

If Mexico becomes a net exporter, it goes up 25,000 tons up until the year 15. It is a 15-year phase out. Right now, sugar prices in Mexico and the United States are virtually the same.

Sugar quality in Mexico is less than the United States. In fact, sugar production in Mexico has gone down and exports have increased.

We did not negotiate this agreement, but there are a lot of protections for the sugar industry already in this agreement. That is not to say every protection is there.

If you look at pages 720, 721, and 722 of the agreement itself, you will find fairly wide ranging protections for the industry. There is one thing that was left unstated.

And without committing this administration, we have spoken about it earlier. And that is substitution.

Senator BAUCUS. Right.

Mr. KANTOR. And the substitution problem is one that is just left silent in the agreement itself.

Senator BAUCUS. Right. A major concern of U.S. industry.

Mr. KANTOR. It is a major concern. I understand it. We are looking at that. We have dealt closely with you and your colleagues on it. And we will continue to do so as we move into these negotiations.

Senator BAUCUS. I appreciate that.

Second, with respect to wine, as you know, Mexico concluded its own free trade agreement with Chile with respect to wine. It phased out wine tariffs at a rate much more quickly than the phase out of wine tariffs in NAFTA.

Is the administration willing to include as part of the side agreement an agreement with Mexico that the tariff reduction schedule be the same?

Mr. KANTOR. With all due respect, Senator, I think that will be reopening the agreement. I think that is one we cannot legally get around and deal with because in the former issue we are talking about, their silence is not silence on this issue.

That is not to say I either support or do not support what was——

Senator BAUCUS. What about an acceleration of the tariff reduction?

Mr. KANTOR. Well, in fact, under the agreement, you can do so. We can have negotiations and consultations subsequent to the signing or the implementation of the agreement.

Senator BAUCUS. Right.

Mr. KANTOR. We could do that. And so we would look at that, but only under those auspices.

Senator BAUCUS. I have a question with respect to the Uruguay Round. As you well know, Congress has an equal say over trade policy under the U.S. Constitution. And under the 1988 Trade Act, when Congress delegated fast-track negotiating authority to the administration, it included in that bill Super 301 and other measures.

Is the administration, when it sends up its request to extend fast-track negotiating authority, willing to also request the inclusion of the Super 301 and the Trade Agreements Compliance Act?

I say that because those measures are both market opening. While negotiating the Uruguay Round agreement or other free trade agreements, it seems only logical that we also include Super 301, and the Trade Agreements Compliance Act to be sure that any agreements we reach with other countries under the Uruguay Round or other free trade agreements, in fact, do open markets. And those two measures I indicated would help to accomplish that result.

Mr. KANTOR. We are almost at the end of our process on fast track in the administration beginning with the Trade Policy Staff Committee and then the Trade Policy Review Group and then to the NC.

Let me assure you that both Super 301 and TACA were part of that discussion on fast track. And we will be coming to a conclusion—the President will be coming to a conclusion quite soon.

Let me say that both of those, I agree with you, are market-opening devices. Both are well thought out. And I would commend you

on the TACA legislation, but we have not come to a final conclusion.

Again, I do not want to get out in front of the President of the United States, but let me assure you that they have been under active consideration, as we have looked at the fast-track extension, in fact, something you suggested, a two-tier extension.

Senator BAUCUS. I see my time is up, but before I turn it to Senator Riegle, I think it is important to emphasize that Super 301 and the Trade Agreements Compliance Act are totally market opening.

Mr. KANTOR. Yes.

Senator BAUCUS. There is not one scintilla of protectionism in either one. The goal and the intent and the effect is to open markets. I think that point has to be underlined many, many times because there is some misinformation amongst some that those two measures represent protectionism when, in fact, there is not one shred of evidence to suggest that.

Mr. KANTOR. I couldn't agree with you more. In fact, if you look at putting people first, which I know you have—I am sure it is right by your bed stand—I think it is page 77. It could be page 57 that, we support, the President has supported, Governor Clinton supported, and now President Clinton supports the Super 301.

Senator BAUCUS. Thank you very much.

Senator Riegle.

Senator RIEGLE. Thank you very much, Senator Baucus.

Mr. Ambassador, nice to see you today. I appreciate very much the fact that you made the visit to Michigan the other day. I know had a long meeting with the heads of the automobile companies and then met with leaders of the United Auto Workers.

I appreciate your personal effort and your willingness to help us think through and deal with some of the very serious trade problems we have.

Clearly, those problems in autos and auto parts are manifest in our persistent-type trade deficits with Japan. Most of those trade deficits which are running nearly $50 billion a year, as you well know, are in automobiles and automobile parts.

We think that problem has to be solved. We have to get that down to a balance of trade over a period of time. I think the Japanese need to do far more than they have done in order to really enable that to happen.

But again, I thank you for that, but I want to go to the NAFTA situation and talk about that here today. In doing so, I want to put it in the context of the President's economic plan.

I salute the President for coming forward with a comprehensive economic plan to deal with several key objectives in our country at once, the main objective being to bring into being in the private sector of the economy some 8 million new jobs over the next 4 years. This is sort of the driving, central purpose of the economic plan, and at the same time to start to bring down government spending and to reduce the Federal Government deficit and to begin to get the kind of positive effect in the financial markets.

We have seen long-term interest rates coming down, which is already now beginning to help us, but with respect to the jobs, as you

know, we have had a very tough time getting job creation going in the private sector.

We saw some job growth in the last monthly figures, principally, however, in part-time jobs. And as you may know, a person in America is counted as employed if they work as little as 1 hour a week. And so having people in part-time jobs as opposed to full-time jobs is not really the same thing.

With respect to NAFTA, I put a chart together here that I want to show you in terms of where we are in manufacturing.

This chart shows what the percentage changes have been in the employment levels of manufacturers who are in the international business, who are really the multinational players, and in terms of what has happened in the United States and how the multinational companies in America who have Mexican affiliations, what we have seen in job growth.

Now, this is in percentages, coming off different bases as we know, but you see almost nonexisting job growth in the United States over the period of time, 1987 to 1990.

I think the more recent data is even worse, in fact, but you see a very substantial increase in the increase in manufacturing jobs, off the base down there in manufacturing.

If you look at autos specifically, Ford, Chrysler, and GM now have over 70 plants located in Mexico. My belief is that with a free trade agreement, that creates an incentive to put more plants there.

Those plants were put there, in effect, without a free trade agreement. I think a free trade agreement increases the incentive to go there.

Frankly, I do not think we can afford to lose the jobs. And I think the competition between workers in this country that earn $6, $7, $8, $10, $12 an hour versus workers down there that are earning maybe $1 or $1.25 an hour is an irresistible attraction for business firms to pull up, leave the United States, and go south.

You have the case of Smith Corona that has done that from upstate New York. And we have certainly seen it in the manufacturing sector.

Now, I see a major problem here in the fact that, I think, our main export to Mexico is likely to be jobs and not products per se. There is a big debate about this. We will debate that out as time goes on.

I do not think we can afford to export jobs to Mexico or say to our young people who are preparing themselves, maybe coming through high school, going on, and then maybe for a college education, coming out, in many cases, with college degrees, "Sorry. We have no work for you." or, in effect, "You have to go to Mexico to find a job."

I mean, that is not a practical answer given the problems and the need for job creation here in the United States.

I am very concerned about this company, this investment firm that has been coming into the United States and buying up companies for the express purpose of buying up companies and shutting them down and moving them to Mexico.

Now, while I was out of the room voting, I know Chairman Moynihan raised the question of this entity that has been discovered doing that.

And I understand that Chairman Moynihan noted that the Mexican Government was involved in this fund to buy U.S. companies and to move the jobs to Mexico.

And I know you acted promptly to protest that. And so the Federal Government in Mexico stepped back from it, but that is not sufficient quite frankly. My understanding is, unless you have additional information that I have not heard, that the regional government officials that covers the Yucatan peninsula where a lot of these jobs are moved to is still participating.

My understanding is that the Secretary of the Treasury for the State is still involved in this. And, in fact, the fund—even though the Federal Government may be out of it, but the fund is still in place, still operating, still has the same purpose, still undertaking to buy American companies, move them down into Mexico.

In fact, I do not know if you have, I assume you have, seen the brochure that they have out. And the gentleman I am talking about is a fellow named Mr. Perez.

Mr. KANTOR. Yes. I have seen that, Senator.

Senator RIEGLE. In this document, they make it very clear what their purpose is. I mean, their purpose is to essentially raid companies here through this investment fund and move them down there.

I mean, I cannot tell you how high my temperature goes when I read this. And if we tolerate one instance of this happening, $1 spent this way, and whether it is one tier of government down there or another, to me, it is all the same.

I mean, it is unacceptable. And it is wrong. And if that is happening, as I have reason to think it still is happening, unless you can give me an ironclad assurance to the contrary, I think it has to be stopped.

And if there is any ifs, ands, or buts about it, I think, we need to have all that out on the table so we know exactly where we are.

Mr. KANTOR. Let me respond to that, Senator. The day before Minister Serra was here the first time, he was here yesterday the second time, 11:00 o'clock at night, I was made aware of that piece of paper you have in your hand.

We met at approximately 8:30 the next morning. I raised this issue with him immediately, told him we could not go forward with discussing the framework of negotiations and discussions in light of this very serious issue.

Let me say not by way of defense, but by way of explanation, by noon that day, not only had the Mexican Federal establishment, but the State that was involved and the investment bank—it is a State investment bank, Mr. Chairman—had agreed to withdraw from the fund and are in the process of doing so right now. They had a $3.5 million investment in this fund.

That is being done. I asked Minister Serra yesterday. And he said that that is an ironclad assurance it has been done. It will be done at the State level and the Federal level in Mexico.

Senator RIEGLE. Now, does the fund still exist?

Mr. KANTOR. The fund is a private fund. And there is not much—it is frankly a U.S. fund, as you know. It is not a Mexican fund. It has private U.S. investments.

Senator RIEGLE. And it is not a Mexican fund since the Mexican Government has decided to withdraw?

Mr. KANTOR. To withdraw. That is right. And they had frankly a minority share of that fund, not a majority share of that fund. Therefore, there is nothing we can about a private U.S. investor carrying on activities in this right, not in the trade office at least.

Senator RIEGLE. We have to find some way to deal with it because I think it cuts exactly against the national interest of this country.

Mr. KANTOR. I do not disagree with your statement and philosophically what you are saying, but a private U.S. investment fund is very difficult, of course, for us to deal with legally. They have every right to make investments.

Let me just go back because I think it raises a larger issue that you raised and not to take too much of the committee's time, but capital and production is mobile.

And right now, we have seen, of course, a tremendous number of jobs go to Mexico in the last years without the NAFTA. I think the NAFTA with the proper parallel agreements which protect worker standards and the environment will be helpful to make the situation substantially better, not worse.

You and I may disagree about that.

Senator RIEGLE. We do disagree about that.

Mr. KANTOR. I do not think the NAFTA itself will change what has been the situation. In fact, I think it can help, not hurt.

Senator RIEGLE. Well, if I may just say if the chairman will permit, when we had the hearings last year while the Bush administration was still in place and we had certain witnesses coming in to testify, we had Boone Pickens here and we had the head of American Express, it became very clear to me in those hearings that this agreement as it has been worked out is principally a sort of safeguard capital investment, property rights, and to sort of look after the holder's capital as opposed to the holders of jobs, this country or that country. But I am a lot more concerned about the holders of jobs in this country.

And I think that is where the basic flaw is. I would just raise one other issue in that context, and that is the advertised balance of payment surplus in our favor, $6 billion being talked about.

Many of the items that are counted in that—it is a very arcane accounting situation. It would take a mind like Senator Moynihan's to track all this down. I mean, you have to really have a very complex mind to be able to understand how this all works.

But many of the goods from the United States are shipped down to Mexico. A certain amount of processing is done down there. And then, they are shipped back.

And the way that all of this accounted for, there is a real question as to whether or not there even is a surplus in the trading accounts if done accurately.

I am not prepared to make that assertion today one way or the other, but we have done enough work on it that I have very grave doubts in my mind that that number is accurate and meaningful.

What is meaningful is the flow of jobs out of the United States to Mexico. We cannot afford to have the wholesale movement of jobs out of this country.

If the President is going to keep his commitment to the American people, 8 million jobs over 4 years and not have a hemorrhage of jobs going to Mexico, whether it is a Mexican investment fund with American players in it, coming up and sort of closing down companies and moving them to Mexico or whether it is just American multinationals that say, "Well, here's our chance to get rid of workers that earn $10, $8, $7 an hour and get down and get workers that earn $1.50 an hour," and here we go. And too much of that already.

So I am very interested to see what these side agreements look like.

If I may say one other thing, and that is this, we are going to have in this committee the requirement to move the economic package, an enormously complex task. We are going to have to work probably within the reconciliation instructions, all the tax revenue items in there, and a number of other things.

Then, we are going to have health care right behind it. That is coming again right through this committee. It is an enormously complex task.

This issue, the NAFTA issue, is in its own way every bit as complex and as contentious. It is going to create major problems when it finally arrives here.

I would hope, as a practical matter, that the President's two top objectives getting the economic plan through here, which I support, getting the health reform plan through here and enacted, which I support, those things would be done first and not throw a NAFTA situation again on top of it in the middle of all of this and find that we are not able to get perhaps any of the two of these things done properly.

The CHAIRMAN. Thank you, Senator Riegle.

I wonder if I can just suggest to the Ambassador that this question of the Mexican Government participation in capital projects to bring plants from here to there could be a subject of the side agreements which you are now going to be negotiating.

I mean, they made a very bad judgment, but a typical judgment in the society in which government has such a preeminent role in capital formation. And we have mixed systems here. Our systems are not comparable.

If we think the Canadian wheat subsidy is unusual, think of the dinner party that Mr. Salinas gave last week. For $25 million you could get yourself a part of the next administration.

It was an agreeable thought. They said that we are trying to raise this money privately instead of taking our campaign monies from the government itself, which is an interesting thought, but that's what comes from having an institutionalized revolution.

We wish our neighbors the best of good fortune, but they have a system in which things might seem appropriate to them which would seem hugely inappropriate, not just to Senator Riegle who spoke very well, but to, I think, any member of this committee and you, sir. I believe that is why you responded as you did.

Is there a possibility that this might be a subject of these agreements?

Mr. KANTOR. I think it is quite possible that we could discuss with them an exchange of letters which would indicate quite clearly that this has been withdrawn. They have assured me it has been.

And let me say that they have been people of their word, at least in dealing with me, Senator Riegle. And I think that this is being done.

But I think we could exchange letters on this subject and maybe reach a broader understanding. Let me not raise it to the level of an agreement, a broader understanding about this kind of investment.

The CHAIRMAN. I think we would like to hear more about that. And I am sure we will.

Senator Baucus.

Senator BAUCUS. One brief question, Mr. Ambassador, as you well know, the structural impediments initiative that we have been undertaking with Japan is due to expire in July.

Are you going to ask for an extension? Are you going to let it lapse? What do you think?

Mr. KANTOR. As we begin our discussions on the Semiconductor Agreement, on autos and auto parts with the Japanese, which I know Senator Riegle is interested in and others, it is a critical industry to us, we are taking a hard look at SII and whether or not it has been effective.

I have an initial view which may change if you will allow me that flexibility, that we ought to look at parts specific issues, sectoral issues, SII. We shouldn't slavishly adhere to any one approach in this bilateral relationship.

I do not think it makes good sense. I think the TQI and the strategic-industry approach makes some sense along with it. And I think we will be looking at all of that as we begin our discussions with the Japanese in April.

In fact, it is quite possible that I will be meeting with the Miti Minister this weekend if he makes it here to this country.

I do not want to say that SII should be taken off the table. It has not been frankly as effective as we might have hoped. # I21Senator BAUCUS. I tend to agree. I think it needs careful thought, if it is going to be extended. It does not make much sense to willy-nilly extend it without thinking of a way to make it work much better than it has in the past.

Finally, let me just again commend you for what you are doing. I sat in the audience when the President gave his speech at American University.

I thought it was an excellent speech, focusing first on putting our own house in order with respect to our economic problems. The second point he made was trade is very much a part of our national security. And you have said that. I agree completely.

And I think you are doing a good job. These are not easy problems to solve and deal with. But I very much look forward to working with you to help solve them.

Mr. KANTOR. Thank you for your courtesy.

The CHAIRMAN. Now, I would like just to second that thought. I hope you felt that we have been responsive to you. We have tried

to be candid with you. You have, in turn, been candid with us. That is the way this relationship should work.

I would ask everybody in the back of the room to just let us conclude for one moment before you rush away.

And I want to thank our recorder who has been careful to this.

I thank you for bringing all of your people with you. And I want to take the opportunity once again to welcome Marcia Miller back to the committee, having briefly sojourned in the executive branch.

And until we meet again, which will be soon, good luck on your travels and steady on. You have taken on a huge job. You have obviously started it very well.

Mr. KANTOR. Thank you, Mr. Chairman.

We are in very good shape today because we had Marcia even for a brief time. And if you ever, ever want to let her come back, we will be more than happy to——

The CHAIRMAN. It is nonnegotiable. [Laughter.]

Mr. KANTOR. Thank you, Mr. Chairman.

[Whereupon, at 12:37 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I join you and my other Finance Committee colleagues in welcoming Ambassador Kantor to our hearing today.

Mr. Ambassador, you can be sure that if I ever criticize you, publicly or privately, it will not be on grounds that you were unwilling to discuss your convictions with us. We're already losing count of the number of appearances, and requests for appearances, that you've made in the one month that you've been in office. In fact, you may find that some members are beginning to wonder about how much consultation is necessary under fast track. Some of us may not be able to keep up with you much longer.

ARE WE MOVING IN THE RIGHT DIRECTION?

While there's no lack of activity, I have to ask myself if we're moving in the right direction? I'm not sure I know the answer.

We can analyze the question by examining the standard. If, as you have said publicly, you want a doctrine of "comparable action" in our trade relationships, then I would conclude that you are on the right track.

To me comparable action means something more than mere reciprocity. For those of us who gained our political maturity in the civil rights revolution, a doctrine of fairness must include some consideration of past and pervasive wrongs.

So, I am asking you to remediate the vestiges of long enduring discrimination against American products and services. Many of these discriminatory practices were benignly tolerated during the era of great American economic strength. In the post World War II period, for example, we ignored huge tariffs on American-made automobiles and other products so as to help our allies and friends recover from the economic—and social—devastation of the war.

To my way of thinking, it is egregiously unfair to continue these practices against us; it is an insult to the generosity and sacrifices made by so many Americans during and after the war.

WE NEED BALANCE IN OUR APPROACH

While I don't dispute the comparable action standard in principle, its practice can become obsessive, and self-defeating. By this statement I mean to say that we can lose our way, become too focused on corrective approaches, and give too little attention to building new and better trade relationships.

Mr. Chairman, this is another way of saying that our credibility can be placed at risk. Let me illustrate my concerns with some recent actions by the Trade Representative's office.

In the short period of a month, we have:

- Called for the renegotiation of the Airbus agreement.
- Condemned Japanese foot-dragging on the Semiconductor Agreement.
- Demanded Japanese compliance with their voluntary agreement to insert 70 percent domestic content in Japanese cars made in the United States.
- Questioned the legitimacy of the soybean agreement with the European Community.

Mr. Chairman, we should not forget the lesson that we are giving to other nations making the transition to market economies. We tell them that our business system is built on two principles: the value of property, and the inviolability of the contract.

Let me remind our distinguished Trade Representative that each of the agreements I just mentioned were freely entered into by the United States. While I have no problem whatsoever with Ambassador Kantor's crusading commitment to enforcement, I find that approach markedly different from the unilateral withdrawal from an agreement, even a bad one. Every first-year law student knows that both parties to a contract need to agree to renegotiate to avoid a breach under most conditions. Free-wheeling, highly arbitrary and "spoil-sport" contract breaches do not provide a suitable U.S. leadership model in the new era of foreign policy dominated by economic concerns.

WE NEED TO STRENGTHEN OUR CREDIBILITY

In a more positive way, Mr. Chairman, I am now suggesting that we get on with completing agreements that should involve Ambassador Kantor's tough-minded approach. The Uruguay Round draft has many deficiencies, Mr. Kantor has identified them publicly: intellectual property and anti-dumping provisions, to name two areas. The North American Free Trade Agreement can also be consummated with the same type of tenacity already displayed by Mr. Kantor. The President needs to get a two-tier fast-track reauthorization, one year to complete NAFTA; four years to complete the Uruguay Round.

And, we cannot let NAFTA be held hostage to a few groups who are misusing their political influence on the administration to re-open the NAFTA provisions that they didn't like, while forcing other sectors in the NAFTA negotiations to swallow without a whimper any concessions they may have made. I sometimes think that we are losing sight of our original motives for negotiating NAFTA with Mexico. We wanted to modernize their economy. Let me briefly recite what has happened in Mexico since 1988, when serious talk of a trade agreement with that country began:

- The economy has been opened to world competition.
- Banks and other state holdings have been widely privatized.
- The union grip on the oil economy has been seriously weakened.
- The capital markets have been deregulated.
- The government's fiscal accounts have been balanced.
- Payments on debt interest and principal are regularly made.
- GDP has risen 58 percent.
- Environmental spending is now at $1.8 billion, up 1800 percent.
- And U.S. exports to Mexico have doubled to over $40 billion as Mexicans' disposable income continues to soar.

Finally, Mr. Chairman, I can think of no better way to re-establish our credibility as a serious trade partner in South America than to begin the negotiation of a U.S.-Chilean Free Trade Agreement as soon as possible.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF MICKEY KANTOR

I welcome the opportunity to appear before the Finance Committee today to discuss the approach and direction of the trade policy of the Clinton Administration. This is my first public appearance before a Congressional committee since I assumed my responsibilities. I am delighted that I can appear first before this Committee, which recommended me for confirmation to the position of USTR.

In his February 26 speech at the American University, President Clinton set forth his vision of America's role in the global economy, confronting the third defining moment of the 20th century. Our role in the world emerges quite clearly from that important speech. As we and other nations struggle to face the new realities in the aftermath of the fall of Communism, the United States will be fully engaged internationally, not turning inward. We see our prosperity bound up with prosperity of our trading partners, in Canada, Europe, Japan and Mexico. We will work with them to promote global growth, aid the development of other less prosperous nations, address the emerging issues of environmental degradation and proliferation, and focus on the central importance of what is at stake in Russia.

Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services. As the President said, we will compete, not retreat.

The trade policy of this Administration starts from the same point as its economic policy does: our prosperity and that of our children depends on our ability to compete and win in the global markets.

A little more than a generation ago, American industrial and technological superiority were unquestioned. Our workers, consumers and companies lived almost entirely within the American economy, and prospered there. But those days, when the world was a far simpler place, are long gone. Today, our exports and imports represent more than a quarter of our entire economy. And in the new global marketplace—where capital, management, production, technology and even labor are increasingly mobile—more than 70% of our products face competition from products produced in other countries.

Principles of Administration Trade Policy. Let me start with the principles that will guide Clinton Administration trade policy, as articulated in the President's American University speech.

1. In this Administration, trade policy is a part of integrated economic policy, and the fundamental goal is economic growth and the creation of high wage jobs for American workers.

The trade deficits which have grown up since 1980 are a fair measure of our competitive slippage, but they represent many factors beyond trade policy and trade agreements. If as a nation, we increase public and private investment, if we attack our budget deficits, if we take control over our health care system, if we educate our children and train our workers—we will have taken enormous steps toward prospering in global competition. If we do not take those actions, trade agreements alone will not produce prosperity for our people.

Nothing is more important to our economic prosperity, our competitive success, and our trade policy than the adoption of the President's economic package. Bill Clinton was elected to get the economy back on track, and to fix the track: to insure that we came out of recession in the short term, and to lay the groundwork for long-term prosperity. The lack of investment and the deficits have crippled our economic performance; if unaddressed, they could consign this country and its children to a diminished economic future. America, and all of us in political life, will benefit if we can come together to pass the President's program.

A real attack on the budget deficits will reduce long-term interest rates, leading to increased investment and job growth. U.S. companies choosing where to invest will find contributing to our own country's growth a more attractive option. Over the longer term, increased investment in the education and training of our workers, our transportation and communications infrastructure, and research and development generally, are vital to our ability to compete globally. In that connection, the Administration's New Technology Initiative, unveiled by the President and Vice President Gore on February 24, is a concerted effort to bolster U.S. civilian technology which has too often been slighted because of our traditional focus on defense technologies.

Moreover, the link between the President's program and our ability to promote global growth is inescapable. The economic stagnation of the past few years has not been confined to the United States. Growth will resume through concerted action by the leading economic powers: our attack on the budget deficits, Germany's willingness to lower interest rates, Japan's readiness to stimulate its domestic economy. For each of us, hard steps, with short term costs, are necessary to produce growth and prosperity. President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

2. Past Administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns. The days when we could afford to do so are long past. In the post-Cold War world, our national security depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of the GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic framework.

This framework was both geopolitical and economic in its origin. The United States recognized the military threat posed by Communism; that our vital interests would almost always be defined in national security terms. At the same time, we realized that the expansion of trade and investment was one of the Free World's most potent weapons.

This policy was virtually painless for the United States. Although the U.S. was the world's economic giant, U.S. trade amounted to relatively little. In 1950, for example, U.S. exports and imports each amounted to only about 4% of the GNP, or 8% for trade as a whole. For Britain and France, on the other hand, trade was their economic life line, representing 30–45% of their GNP.

As a result, the United States tolerated "infant industries" policies in both Europe and Japan and other forms of protectionist economic policy in the post-war environ-

ment. Indeed, the creation and support of these economic policies by our allies was seen as an essential element of our national security interests.

Our foreign and economic policy in the post war era deserves credit for its historic accomplishments. We contained Communism, and rebuilt the economic strength of the free world. In the four decades following World War II, growth in the non-Communist world tripled. More importantly, Communism as a political system failed to maintain its toehold in Western Europe.

By the early 1970's, however, our trading partners had begun to come of age, and external shocks, such as the oil embargo of 1973, jolted our economy. The U.S. ran its first merchandise deficit of the century in 1971, and confronted the first wave of popularity of cars from Japan. Accustomed to steady economic growth and a secure domestic market, American business and workers had difficulty adjusting to the new dynamics of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

The deep recession of 1981–82 took a devastating toll on U.S. manufacturers, but even when the economy recovered strongly, the overvalued dollar saddled U.S. exporters with a serious competitive disadvantage. Confronted with the reality of Japan's trade and industrial policies, the Reagan Administration's principal response was laissez faire and, after the 1985 Plaza Accord, dollar devaluation. By 1987, the U.S. merchandise trade deficit was $150 billion, $57 billion of which was with Japan. The weakness infecting basic industries spread to our leading edge high technology sectors as well.

The truth is there is ample blame for everyone. The great majority of U.S. companies were very slow to adjust to the blast of competition; there was no excuse for their failure to see what was happening years ago. But it is also true that U.S. government policy saddled our companies with every conceivable burden: higher costs of capital, increasingly serious health care costs, and, most relevant to us, a trade policy that for many years failed to enforce our laws at home, or open markets abroad.

The fundamental question that I am asked about trade policy is: how much continuity, and how much change? There will be a great deal of continuity, largely because of the six year, bipartisan Congressional effort, in which this Committee was instrumental, which culminated in the Omnibus Trade and Competitiveness Act of 1988. Thanks to that Act, the United States has a trade policy, with clear objectives that have broad support from Congress and the private sector. Obviously, there will be no shortage of difficult decisions to make, but the United States Trade Representative is charged with enforcing the laws and opening foreign markets, and given the tools to do so.

At the negotiating table, I will be representing the interests of American workers, farmers and businessmen and women, just as my counterparts represent theirs. We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

3. We will compete, and we have proven that we can.

Because of failed government policies, and the difficulty of adjusting to the new global economy, the United States has had serious competitiveness problems in many areas of the economy. But I have no doubt about the ability of our corporations, our farmers and our workers to compete. In many sectors—computers, aircraft, machinery, agriculture, motion pictures, financial services—American companies and American workers set the standard of excellence in the world. Our universities and our entrepreneurs are the envy of the world. We will build and maintain a strong manufacturing base, and we will manufacture a full range of products from semiconductors to steel. We welcome the products of other nations, but we will not prosper if we are content to simply buy, sell, assemble, and distribute high-quality and low cost goods from abroad.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1992, U.S. merchandise exports increased from $222 billion to $445 billion, in current dollars, a virtual doubling. We regained our position as the world's number one exporter. By 1990, more than one in six U.S. manufacturing jobs were related to merchandise exports, and the average wages for workers in manufacturing and service exporting sectors, where American products are most competitive, substantially exceed the U.S. average. This dramatic increase in exports has occurred even though 85% of U.S. exports come from only 15% of U.S. companies. The export potential of our vibrant small and mid-sized businesses remain to be realized, and that is a high priority for this Administration.

4. We will seek to expand trade by opening foreign markets, and we will enforce the laws at home. One of my principal responsibilities as USTR is to open foreign markets and break down barriers to U.S. manufactured goods, agricultural products and services. This includes pursuing the strong protection of U.S. intellectual property, so important to our high technology industries. When all is said and done, opening foreign markets is our main objective in the Uruguay Round; it is the impetus, from our standpoint, for the North American Free Trade Agreement (NAFTA); it will be a principal focus of our efforts with respect to Japan and China, as well as in other nations around the world.

We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. Consequently, we need to use every tool at our disposal-multilaterally where possible, and bilaterally where necessary—to make sure that other markets are comparably open to our own. That includes resort, where legitimate and necessary, to Section 301, strengthened by Congress in 1988. Both Super and Special 301, used appropriately, have proven to be valuable tools for breaking down significant barriers to our products and services, including the failure to protect our intellectual property.

It should be understood: while there are many factors beyond trade policy that contribute to trade deficits, trade policy matters. In today's global economy, allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by and pretend that other nations share our commitment to expanded trade and open markets if the real world evidence suggests that they do not.

5. We will ask companies and workers to join in partnership with government to build competitive industries. Nor will we stand by, indifferent, when companies, workers and communities are hard hit by foreign competition—fair or unfair. In appropriate cases, our Administration will offer trade relief to industries under pressure, but we will expect in return that the affected companies and workers will commit to actions that will build the future competitiveness of the industry. This Administration is asking all Americans to join in the effort to rebuild our country's economic strength; there will be no free rides. We will not protect industries, only to watch them raise salaries for their CEO's and prices for their customers.

Let me address specifically a number of the major issues facing us.

NAFTA. President Clinton has consistently affirmed his support for the North American Free Trade Agreement (NAFTA), provided it is accompanied by effective U.S. domestic economic policies and supplemented by additional agreements and domestic actions to address concerns regarding labor, the environment, and safeguards against import surges. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994. An enhanced NAFTA package can contribute to the ability of our companies and farmers to compete at home and abroad and help improve working condition, living standards, and environmental quality throughout North America.

We have already seen the benefits we can gain as Mexico opens its markets. Thanks to the economic liberalization program enacted by President Salinas, our merchandise exports already have grown from about $12.4 billion in 1987 to $40.6 billion in 1992. This export growth has reversed what was a $6 billion trade deficit in 1987 and turned it into a trade surplus of nearly $6 billion last year. And these increased exports have come from every region of the United States. Mexico is one of the top 10 overseas markets for 38 states, and 20 states each shipped roughly $250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese. The NAFTA will open still greater opportunities for US exporter by eliminating Mexican tariffs (which are more than twice as high as U.S. duties, on the average) knocking down other forms of Mexican trade restrictions, and eliminating discrimination against U.S. providers of goods and services.

On March 17 we will begin negotiation of the supplemental agreements on labor standards and safety, the environment, and import surges which the President called for during his campaign. We will pursue these agreements vigorously, let me assure you that we will not sacrifice substance for speed—nor will we delay our efforts in the name of an artificial timetable. We will not ask you to vote on NAFTA

implementing legislation until these negotiations result in comprehensive, enforceable agreements.

In the supplemental agreements on environment and labor, we are looking for concrete improvements. We want the agreements to have mechanisms and provisions to help raise standards where they are deficient, strengthen national enforcement of national laws, improve the U.S.-Mexico border environment, and ensure, so far as possible, that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we can achieve these goals. My Mexican counterpart, Jaime Serra Puche, has told me that he would like to view these talks not as a negotiation, but a collaboration. Mexico has excellent labor and environmental standards on its books, and President Salinas has repeatedly recognized the need for strengthened enforcement.

I see the labor standards and environmental agreements covering three basic areas:

—improved cooperation on worker and environmental safeguards, including technical assistance, and data sharing, with a goal of attaining the best protections possible;
—improving enforcement of standards and national laws, both through the administrative and judicial processes of each country, and new labor and environmental commissions which will provide independent scrutiny of measures taken to enforce national laws; and
—encouraging a positive impact of the NAFTA on North America's working conditions and the environment.

In these negotiations, we will be breaking new ground for the United States and for our continent. We want to promote the strongest possible improvements in all areas. At the same time, we have to bear in mind that the agreements will apply to us as well as our neighbors. This could raise tough issues for us, including matters of prosecutorial discretion, state/federal relationships, the operations of the courts, and Constitutional guarantees of due process. My staff and I will be looking to you and to our experts in the labor and the environmental communities to find ways to address these problems as the negotiations progress. At the same time, USTR, along with OMB, Treasury, Labor and EPA, will be studying the various options for funding critical environmental cleanup efforts.

In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know there are concerns in certain industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures may be more likely used against U.S. exports. As with labor standards and the environment, I will be looking to you and the private sector for guidance on these matters.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. When Sir Leon Brittan, the EC Trade Minister was here on February 11, I announced the President's decision to seek the renewal of fast track procedures to complete the Round. I indicated at that time that timing of the request and the duration of the authority we would seek would be determined only after further discussions within the Administration, and consultation with Congress and the private sector. We are in the midst of that process, and no final decision on timing or duration has yet been made.

Ambassador Hills, and the staff at USTR, expended enormous effort for four years to reach a strong Uruguay Round agreement. Others committed to the Round, including the Director General of the GATT, Arthur Dunkel, have done the same. Through discussions with the private sector and Congress, we are developing a good sense of the accomplishments to date, and the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as some have reported in early January. I told Sir Leon that our goal was a good agreement, not just a quick one.

Sir Leon pointed out the danger that whatever consensus that has emerged so far behind the draft "Final Act," known as the Dunkel text, could dissipate if quick agreement was not reached and the U.S. and other nations tried to re-open the text to address issues where we have concerns. While I recognize his concern, the fact

remains that we are not going to reach agreement until some of our major problem areas with the draft "Final Act" are dealt with seriously and effectively.

Moreover, the question of whether we can reach an agreement depends very much on the market access commitments for goods and services which are still being negotiated. If we reach ambitious agreements on market access—cutting tariffs, breaking down non-tariff barriers—the Round will hold out potential benefits of the magnitude that will inspire enthusiasm in the American business community, and their workers, that has been, to date, muted, at best.

We chose to announce the decision to seek fast track procedures when Sir Leon was here, because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services. The three-year deadlock between the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the U.S. and the EC, but we will also not complete it if Japan continues to behave as if it has little stake in the outcome. We also need to see meaningful contributions from other trading partners—the newly-industrializing countries in Asia and Latin America—and the developing countries who owe their economic gains to a strong, open multilateral system. It is time to address the free riders in this Round.

A successful Round would give an immediate boost of confidence to the world economy, sorely in need of one. It would contribute to increased economic growth over the next decade by lowering barriers to trade in goods, bringing new rules and discipline to services, agriculture and textiles, and creating, for the first time, a set of enforceable rules for protecting intellectual property and governing investment. But the Round is not a favor that the United States is doing for the world. If it is ambitious enough, U.S. companies and workers stand to gain a great deal because of lowered barriers in our existing markets, and the creation of new markets.

But our criterion should be clear: despite the sometimes single-minded focus on agriculture, and the preoccupation with the so-called "new issues" of intellectual property and services, support for the Round in the U.S. will turn on the benefits that result for U.S. exports of manufactured goods, agricultural goods, and services produced by workers and farmers here in the United States. However, in pursuit of those benefits, we will not weaken the provisions of current law such as those that provide remedies for our industries against the unfairly traded products of other countries, and those that protect health, safety and the environment.

European Community. We have our share of current difficult issues with the EC. Despite this, our trading relationship with the European Community is one of the most important in the world and is critical to the integrity and vitality of the multilateral trading system. We are each others' largest trading partners, and maintain a diverse and largely balanced trade relationship. Last year two way-trade amounted to $197 billion, with the U.S. running a surplus of nearly $9 billion.

The evolution of the European Single Market (EC–1992), which officially came into effect on January 1 of this year, has been a prominent feature in our trade relations with the EC in recent years. We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market comparable in size to our own. But we insist that European integration legislation and policies treat US firms fairly. When European policies create now barriers to US exports, we will act firmly to protect our interests. I have already moved to address the barriers to US firms created by the newly-implemented EC directive on procurement by utilities. As the EC proceeds to form the European Economic Area with other Western European countries, to deepen its own economic and monetary integration and to add associate members from Eastern Europe, we will continue to make full use of the tools in our international agreements and US trade laws to keep markets open.

Japan. No aspect of our trade policy has proven more complex or contentious than our relationship with Japan. In the past decade, our trade deficit with Japan has totalled nearly $500 billion dollars. The bilateral deficit peaked at $57 billion in 1987, and then came down over the next four years to $43 billion. U.S. exports did increase from $28 billion in 1987 to $48 billion in 1991, but have levelled off since, as the Japanese economy has stalled. This year, the bilateral deficit has again increased to $49 billion. As always, the disproportionate amount of the deficit is made up of autos and auto parts, and electronics.

A year ago, in the immediate aftermath of President Bush's trip to Japan, there was significant anger on both sides of the Pacific, particularly as the recession deepened. The presidential campaign, which had the potential for inflaming the relationship further, did not. A great deal of credit goes to President Clinton who stead-

fastly refrained from criticizing Japan and instead ran a campaign focused on dealing with our problems at home to strengthen our economy.

Nonetheless, the U.S.-Japan trade relationship needs immediate and serious attention. Clearly, the Japanese market has gradually become more open to our products and services, and those of other nations, over time, but the progress has not been rapid enough to produce the level playing field that we have sought for years. Numerous barriers remain in Japan which prevent, or dramatically reduce, the sale of U.S. products and services which are highly sought after in other countries around the world.

At the same time, Japan feels that it has been bombarded by demands from the U.S.—export less, import more, strengthen the yen, negotiate about individual products, negotiate about sectors, talk about structural impediments—demands that frequently change, but never end. After years of a booming economy, Japan faces its own economic difficulties, making government and business leaders even more hostile to pressure from the United States, even while many in Japan express the view that change can occur only as a result of outside pressure. Resentments on both sides of the Pacific have built as a result of a decade of almost constant acrimony over one trade issue after another, but despite efforts by both sides, we still find ourselves with an intolerable trade deficit, and still limited access to this critical market.

In the first instance, we must insist that Japan fully implement the range of agreements already negotiated—and implement them in such a way that they provide important and concrete benefits to the U.S. and other non-Japanese suppliers. Very early on, we have a chance to gauge the efficacy of these agreements. In the coming weeks, we will be reviewing the progress on the Semiconductor Agreement, to monitor the progress being made toward the expectation of a 20% market share in Japan for foreign semiconductors. We intend to vigorously follow up on commitments that were made in January 1992 with respect to the auto parts market in Japan. Recent developments in our Supercomputer Agreement are troubling, and we are evaluating our next steps. On all these issues, we will be consulting closely with this Committee and other interested members of Congress.

Above and beyond the series of individual disputes, we need to find a better approach for dealing with Japan trade issues—one that will lead steadily in the direction of a more equitable balance of economic benefits and responsibilities. The beginning of a new Administration is the natural juncture for a careful review of the overall U.S.-Japan relationship, to underscore the importance of the relationship by collaborating on problems that we can move on jointly, while moving to address the very real bilateral problems between us. President Clinton's commitment to dealing with our problems at home, without blaming Japan or any of our other trading partners, provides a more promising starting point for discussions about hard steps that Japan needs to take on its part.

China. With the highest growth rate in the world over the past decade and an entrepreneurial boom in the south, China has enormous potential as a market for American goods and services. At the same time, China's human rights practices do not conform with international standards; we are concerned that its arms sales behavior jeopardizes our global non-proliferation efforts; significant barriers to our products and services continue while China sends an increasing share of its exports to the United States. All these factors raise serious questions about the nature of our relationship.

These issues have come together in the annual MFN debate in the Congress. The Bush Administration was adamant in rejecting every effort to put conditions on extension of MFN to China. The Clinton Administration will address all of these concerns—human rights, proliferation and trade—and we will address them aggressively. We are currently reviewing our policy toward China, including MFN, and I can tell you that we will consult closely with the Congress.

On trade, an interagency team was in China last week following up on the two trade agreements that Ambassador Hills negotiated last year on intellectual property rights and on market access. So far, the Chinese are abiding by the terms of the IPR agreements. On market access, there are some problems, and I am following up with my Chinese counterparts. We are leading the process to negotiate China's entry into the GATT, and we will ensure that significant further changes in China's trade regime are made before that happens. Finally, we are looking at other areas, such as services, that were not the subject of earlier negotiations yet are very important to our businessmen. We expect an equitable and balanced trading relationship with China, and we will settle for no less.

The Administration and Congress also face the issue of renewing the Generalized System of Preferences (GSP) program, which we are reviewing carefully as we consider our overall policies of trade and aid with developing and Eastern and Central

European countries. As the President noted in his speech, the steady expansion of growth in the developing world is in our interest and theirs as well. We need to do our part to alleviate the grinding poverty which afflicts much of the world; at the same time, we are building markets for products made by our Yorkers here.

Let me close on a personal note, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have, or the work that we will do together. I travelled around the country during the last campaign, and I have seen the pain inflicted on people and communities from jobs lost as a result of a changing global economy. I have spoken with many of you, and through you, I have heard the concerns of those you represent. Together, we need to find the mix of policies that rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.

Responses of Ambassador Kantor to Questions Submitted by Senator Grassley

Question No. 1. When the Uruguay Round began, it was well understood that agriculture would be the linchpin of a successful agreement. However, given the difficulties of U.S. agriculture finding an acceptable resolution to the GATT—it appears that the French would not approve the GATT as it now stands—what are your feelings with regard to removing the agriculture title from the GATT as a possible solution to achieving a successful conclusion in the other titles of the GATT?

Answer. President Clinton is committed to the successful completion of the Uruguay Round, and agriculture continues to be a major item in the Uruguay Round. With exports at $40 billion annually and representing over 10 percent of our total exports, agriculture is a critical part of our export strategy for this country. If we obtain good results on market access—cutting tariffs, breaking down non-tariff barriers—the Round will offer significant potential benefits for the American farm Community.

The fact of the matter is that agriculture is the issue that has brought most developing countries to the negotiating table in the Round. Without an agreement for multilateral agricultural reform, the overall Uruguay Round package would simply unravel because it would be difficult to obtain support for other aspects of the package—whether it is better access for U.S. manufactures, protection for U.S. intellectual property rights, or stronger rules on unfair trade practices.

Question No. 2. One U.S. Government proposal in the Uruguay Round is the "zero-for-zero" tariff proposal designed to achieve the elimination of tariffs for certain American exports. One of the products included in the "zero-for-zero" proposal is aluminum. Achieving success in this area is extremely important to my constituents at an aluminum facility in Davenport, Iowa. This company has been successful in exporting aluminum sheet and plate to the aerospace industry in the EC and elsewhere. These aluminum aerospace exports to the EC are not inhibited by tariff barriers because of the provisions in the GATT Agreement on Trade in Civil Aircraft.

However, exports to the EC of other aluminum sheet and plate products from Iowa are severely hampered because of the 10% EC tariff—a tariff that is three times as great as the U.S. tariff. This inequity needs to be addressed for all aluminum exports from the U.S. to the EC. The vehicle to do this is the Uruguay Round. I urge you to continue to make "zero-for-zero" a high priority for the U.S. during the Uruguay Round negotiations.

Answer. The attainment of a zero-zero solution in non-ferrous metals, including aluminum, remains a high priority in our bilateral market access negotiations with the EC. However, the EC has not yet agreed to eliminate duties on non-ferrous metals and, in fact, has been quite negative on the ultimate feasibility of this initiative. We are continuing to press them, citing the mutual benefits for all participants of achieving zero-zero in non-ferrous metals, and we are hopeful that they will agree in the context of a large market access.

[Submitted by Senator David Pryor]

DAVID PRYOR ARKANSAS CHAIRMAN

JOHN GLENN OHIO
BILL BRADLEY NEW JERSEY
J. BENNETT JOHNSTON LOUISIANA
JOHN B. BREAUX LOUISIANA
RICHARD SHELBY ALABAMA
HARRY REID NEVADA
BOB GRAHAM FLORIDA
HERB KOHL WISCONSIN
RUSSELL D. FEINGOLD WISCONSIN
ROBERT KRUEGER TEXAS

WILLIAM S. COHEN MAINE
LARRY PRESSLER SOUTH DAKOTA
CHARLES E. GRASSLEY IOWA
ALAN K. SIMPSON WYOMING
JAMES M. JEFFORDS VERMONT
JOHN McCAIN ARIZONA
DAVE DURENBERGER MINNESOTA
LARRY CRAIG IDAHO
CONRAD BURNS MONTANA
ARLEN SPECTER PENNSYLVANIA

PORTIA PORTER MITTELMAN STAFF DIRECTOR
CHRISTOPHER C. JENNINGS DEPUTY STAFF DIRECTOR
MARY BERRY GERWIN MINORITY STAFF DIRECTOR CHIEF COUNSEL

United States Senate
SPECIAL COMMITTEE ON AGING
WASHINGTON DC 20510-6400

March 9, 1993

The Honorable Mickey Kantor
United States Trade Representative
600 17th Street N.W.
Washington, D.C. 20506

Dear Mickey:

I am writing to ask that the Office of the United States Trade Representative (USTR) undertake an expeditious analysis of the impact of various international trade agreements on the pharmaceutical marketplace in the United States. In particular, I am concerned about certain provisions in NAFTA, the Dunkel text in Uruguay Round of GATT, and the European Community's recently-effective Supplemental Protection Certificates.

Certain provisions in these documents may needlessly increase pharmaceutical costs in this country by making it more difficult for lower-cost generic versions of brand-name pharmaceutical products to be marketed. In addition, these agreements may limit the ability of the United States government to adjust the term of protection for a pharmaceutical patent as a mechanism to contain drug costs. Under the guise of harmonization, these agreements could preclude the United States from reducing the term of a pharmaceutical patent if manufacturers increase drug prices excessively.

First, let me address the generic drug issue. The 1984 Drug Price Competition and Patent Term Restoration Act (also known as the Waxman-Hatch Act) was enacted to increase patent exclusivity in certain cases for innovative drug products while allowing for more timely approval of lower-cost generic versions of these drug products. One of the most important elements of that compromise was the development of a special provision [35 U.S.C. 271(e)(1)], which provides an explicit <u>exemption</u> from patent infringement for "uses reasonably related to the development and submission of information under a Federal law which regulates...drugs."

The above exemption from patent infringement allows generic companies to import necessary quantities of pharmaceutical ingredients, conduct required clinical tests, submit applications for FDA review, and receive tentative marketing approval for generic versions of the drug <u>during</u> the patent term of the innovator drug. As a result of this exemption, the generic versions of the product can be ready for marketing as soon as the U.S. patent expires on the innovator drug product.

Without this exemption in United States patent law, these preparatory activities would have to take place after patent expiration. This would ultimately result in the delayed availability of lower-cost generic versions of the drug for a period of two to six years, and increase prescription medication costs for millions of Americans.

The pharmaceutical ingredients required for preparation and testing of generic versions of the drug are rarely made available to U.S. generic pharmaceutical manufacturers by U.S. pharmaceutical sources. Therefore, they are often obtained from European and other international pharmaceutical manufacturers. Because of this, the patent laws of European countries have a direct impact on the ability of the U.S. generic drug industry to obtain these active ingredients and conduct the testing required for approval in this country.

Without a specific provision like U.S.C. 271(e) in foreign patent laws, European and other international pharmaceutical manufacturers may be prohibited from supplying these ingredients to United States generic companies as long as the product is still under patent in that country. If this is the case, generic manufacturers would not be able to begin required development and testing until after the patent on the drug expires in the foreign country.

As a consequence, U.S. consumers, federal health care programs, and the health care system in general will be forced to pay monopoly prices for brand-name pharmaceuticals for longer periods of time beyond patent expiration. This could also create a serious problem for millions of older Americans who rely on generic drugs to reduce their medication costs.

The USTR in the previous Administration had been seeking the enactment of strong foreign intellectual property laws, but apparently did not make foreign governments aware of the U.S. policy for prompt post-patent generic approvals. The USTR in this Administration needs to strongly advise our trading partners of the need for a special exemption in foreign patent laws. Without this specific exception, there may be significant delay in the approval of generic drugs in this country.

On the second issue, I am concerned that these international trade agreements may tie our hands in using the pharmaceutical patent as the mechanism to contain drug costs. It is my understanding that the USTR in the previous Administration exerted significant pressure on the Canadian government to abandon their system of compulsory pharmaceutical patent licensing. This system has served the Canadian citizens extremely well in reducing launch prices for new drugs, and containing drug inflation. A recent study concluded that the dismantling of this compulsory licensing system may increase drug expenditures in Canada by $4 billion over the next 10 years. As a matter of policy, we should be sure that the NAFTA or GATT does not preclude the United States from reducing the period of the patent term as an option for containing drug prices.

The Honorable Mickey Kantor
March 9, 1993

For example, I understand that a bill which has now been enacted by the Canadian Parliament would increase the effective patent protection for a pharmaceutical product in Canada from a minimum of 7 years to a minimum of 20 years from the date of patent filing. In fact, the Dunkel text for the GATT states that all parties would adhere to a patent system that provides a patent term of 20 years from the date of filing or 17 years from the date of the grant of the patent. While these agreements may or may not require the United States to change its current 17-year patent system, these agreements may in fact preclude the United States from shortening the pharmaceutical patent term if we chose to do so.

The health care system in the United States can ill-afford any additional patent protection being given to pharmaceutical manufacturers, over and beyond what the current law allows. The overwhelming evidence suggests that pharmaceutical manufacturers use the period of patent protection to sharply increase prices on drugs, far beyond the rate of general inflation. Extending the period of patent protection would simply give the pharmaceutical industry an opportunity to monopoly price their products.

Therefore, I ask that the USTR's office determine the impact of any changes that the United States would have to make in our pharmaceutical patent laws under current provisions of NAFTA or the Dunkel text. I also request that the USTR's office make a more concerted effort to insure that foreign patent laws contain language that would allow the United States to import pharmaceutical preparations that are still under patent in other countries for the purpose of required FDA pre-approval testing.

These issues are extremely serious matters which could have long-standing implications for pharmaceutical cost containment strategies in the United States. While the negotiations on these agreements have been underway for many years, it is important that the provisions in these agreements serve the best interests of the American public, and in this case, our health care system. It is for these reasons that I ask your expeditious review of this request, and I look forward to your response.

Sincerely,

David Pryor
Chairman

cc: The Honorable Daniel P. Moynihan
The Honorable Bob Packwood
The Honorable Dan Rostenkowski
The Honorable Henry Waxman
The Honorable Orrin Hatch
The Honorable Ron Brown

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

Thank you Mr. Chairman and welcome Ambassador Kantor. I am looking forward to hearing Ambassador Kantor's testimony on our nation's trade policy agenda. I must say this is a very timely hearing, coming shortly after the President's first major speech on international policy and trade.

The President spoke eloquently about the international economic challenges and opportunities we face as a nation in the dynamic global economy in which we are competing. He talked about the benefits of open and competitive commerce, and of the compelling need to prepare our workforce to embrace the global economy for it "will enrich us as a nation." As the President stated, "we must compete, not retreat."

As our chief trade negotiator and trade policy advocate, Ambassador Kantor will be responsible for filling in the specific details of the President's broad outline of what must be done in the international trade arena to meet the challenges of the global economy. I hope that you will enlighten us on some of these during the course of your testimony. I would like to comment briefly on completion of the Uruguay Round. It seems to me that the most urgent question now surrounding its successful conclusion is whether the United States will renew fast-track authority. It is incumbent upon us to finish the trade talks, which have been seven years in the making, for they hold enormous promise for opening markets worldwide and boosting U.S. exports and jobs. As the world's largest trader, the United States has the most to gain from a growing world economy built on the strong and comprehensive multilateral rules-of-the-game that will be achieved through the Uruguay Round.

Seven years of negotiations, however, are long enough, and this year should be the make-or-break year for the trade talks. We should have, in fact, already put them behind us and moved on to a new trade round on the new issues that have come to the forefront, such as the environment and competition policy. If our trading partners are unwilling to make the tough decisions that need to be made to conclude the Uruguay Round this year, then it is time to move on. To do our part, I support quickly renewing fast-track authority for six-nine months.

In fashioning its request for fast-track renewal, the Administration must make sure that its trade priorities are in order. Expanding fast-track authority beyond the Uruguay Round or this year will raise important trade policy issues that will have to be examined closely. This will inevitably turn the debate away from the Uruguay Round toward a debate about major trade legislation. Such a debate would, in my view, significantly weaken the chances for renewing fast-track in time to finish the Round this year. That would be a major lost opportunity for revving up a potent engine of U.S. and world growth, growth which is sorely needed right now.

Turning to NAFTA, I would just like to say that I am interested in hearing Ambassador Kantor's views on the three supplemental agreements he will be negotiating in the next few days with Canada and Mexico.

I also continue to believe that we must address the issue of paying for a NAFTA-related worker adjustment program through the negotiation of a small, temporary border fee, which would be eliminated once the NAFTA was fully implemented. It is a small price to pay for all of those who will strongly benefit from NAFTA. Early on in the NAFTA talks, I introduced legislation which called for the negotiation of such a fee, and most recently wrote to President Clinton urging that this be accomplished in the context of the supplemental talks with Mexico. I will be reintroducing this legislation in the next few days.

These are just a couple of my thoughts on some of the top trade issues facing us. I look forward to listening to Ambassador Kantor's perspective on these and other critical issues on our nation's trade agenda.

PREPARED STATEMENT OF SENATOR MALCOLM WALLOP

SUGAR: THE PROBLEM

As a strong believer in open markets, I have been excited by the prospect of an expanded North American Free Trade Agreement. The NAFTA will bring Mexico into the market that we have already established with Canada. The NAFTA model can serve as the basis for other free trade agreements—here in the Western Hemisphere, such as with Chile, over on the Pacific Rim with Japan or APEC, and many other possibilities throughout the world. So it shouldn't be surprising that my hesitation on this agreement does not stem from the lifting of protectionist barriers and promoting of competition. What does concern me is that it does *not* do enough to promote free trade and the opening of markets. The marketplace is the source of economic growth. Government regulations, interference can only stifle markets.

Therefore, I am concerned about the degree to which the NAFTA *interferes* in some markets. An obvious example is the Mexican sugar market. It may sound odd that a Senator from Wyoming is concerned with Mexico's sugar industry, but we live in a global market with rapidly moving capital. Let me explain how that affects sugar produced here in the U.S. and in my State of Wyoming.

The Mexican soft drink industry is Mexico's largest consumer of sugar. Just as the American soft drink industry switched from using sugar to high fructose corn syrup, Mexico's industry is poised to do the same. This displacement alone would, by several estimates, generate a 1 to 2 million ton sugar surplus, enabling Mexico to become a net exporter of sugar quite rapidly. Now if this switch makes economic sense for Mexico's sugar and soft drink industries, why haven't they made it already? It is simply because there has been no market incentive. Currently, Mexican sugar is not cost or quality competitive with any other sugar in North America. But, NAFTA could artificially change the situation. The relevant provision in NAFTA states that if Mexico becomes a net exporter for any two consecutive years of the first six years of the agreement, they will, at year seven, have virtually unlimited access to the U.S. market.

If this agreement were simply saying to Mexican industry: invest in your sugar industry, produce as much as you can, and see how you compete on the world market, no one—not this Senator, nor the U.S. sugar industry—would or could have a legitimate complaint. Because our concept of free trade markets is still so limited—focusing just on our immediate neighbors, we are creating only one free market under this agreement, namely the North American market—the U.S., Mexico and Canada. But it is a market that for some products continues to be crowded with our own government regulations and subsidies. Our trade objective should be to use GATT to eliminate the sugar subsidies that 110 nations now employ. Until such action takes place, we will have a pricing program in this country. For the American consumer, producer or taxpayer, it makes no market sense to artificially stimulate Mexican production of sugar merely by providing access to preferential treatment in our market.

Under our current farm program, there is a U.S. price floor for sugar of 22 cents per pound, whereas the world market will only support sugar prices of 8 cents per pound. The hidden price in this world price is the subsidies that nations provide their industry through various means. Is it a sensible, market-based policy to encourage this problem. How could we feign surprise if investment dollars begin flowing into Mexico's industry and not into America's. That means that at the end of the 15 year phase out for sugar, Mexican producers will have enjoyed the benefits of investments which were made with almost *no risk.* I have long deplored government attempts to take the risk out of business investment and this is one more example of the problem.

To exacerbate the problem, in this agreement, we have said that after year 6, for Mexico's exportable surplus up to a million and a quarter tons, we will simply displace the imports of the other traditional suppliers of sugar. We will cut out such nations as the Caribbean Basin countries and the Philippines. Beyond that million and a quarter, the U.S. Government must either increase sugar allocations or forfeit allocations to domestic producers. This is a whole other issue, which needs to be debated in the context of agriculture policy. But we will be putting in jeopardy the existing no cost operation of our sugar program. Simply stated, investment for expansion and modernization of Mexico's sugar industry would be virtually guaranteed by the current structure of this agreement.

WHAT CAN BE DONE

The great variable in this equation is whether Mexico can indeed become a surplus producer of sugar in the next 6 years. There have been differing analyses on this point. But it would seem to me that, either way, there is a fairly simple solution. It recognizes the potential displacement of sugar by a switch to corn sweetener and therefore *includes* the consumption of corn sweetener as part of the calculation. For those who argue that Mexico is not likely to become a surplus producer of sugar, then this change is really irrelevant. And for those who acknowledge that Mexico could very well become a surplus producer, this change in definition is realistic. It recognizes that for many uses these two products—sugar and corn sweetener—are interchangeable.

By including corn sweetener in the overall equation, we would come much closer to letting the market determine what inputs are used, where capital is invested, and which industry is truly more competitive and deserves to thrive. By excluding corn sweetener we would be insulating Mexico from the painful restructuring that the U.S. industry went through in the 1980's when we lost 53 sugar processing facili-

ties. Making corn sweetener a part of the equation would remove the artificial investment incentives for the Mexican industry and bring us closer to the reason we negotiate free trade agreements in the first place—to make the market more efficient, to force business to compete, and to give the consumer more choices and better values.

Truly free trade is fair trade. It is fair because it says: Let the best guy win—not the one who most successfully lobbied his government for higher tariffs on his competition, not the one who forced his competitor to cutback production, but the one who invests in the latest technology, who gives the best training to his employees, who makes his operation as lean as possible and who is able to produce the highest quality product for the best price. Through the broadest definition of sweeteners, we promote free trade. It is that simple.

In conclusion, let me say that as the administration moves forward on the so-called sidebar agreement and implementing language, they would be remiss if they did not recognize this opportunity—really a technical change—to advance the cause of free trade and open markets. Thank you.

WHEAT

It's clear that U.S.-Canadian Free Trade Agreement has gaps regarding the development of real free trade. One such lapse involves wheat. The problem was reiterated by the recent decision by the Binational Commission on Dispute Resolution which concluded that Canada's transportation subsidies essentially "don't count" in the calculation of the allowable price at which Canadian wheat can be sold. The FTA with Canada prohibits either country from selling farm goods into the other's territory for less than the "acquisition price" plus "storage, handling or other costs incurred."

The definition of acquisition price as determined by the binational panel completely ignores rail subsidies paid by the Canadian Government on eastbound grain. The panel was never even able to determine if Canadian wheat prices offered to U.S. buyers are more or less than the "acquisition price" due to the lack of transparency in the Canadian wheat board. These two issues—rail subsidies and the lack of price transparency—once again get us away from the real intent of free trade agreements: free trade. As we seek to expand free markets, this is one of those lingering issues which the administration must address.

○

67-014 (68)

BOSTON PUBLIC LIBRARY
3 9999 05982 350 8

ISBN 0-16-040941-1